

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: June 16, 2009

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 lower the policy rates as follows:

- a) Overnight Interest Rates: Borrowing rate is decreased from 9.25 percent to 8.75 percent, while lending rate is decreased from 11.75 percent to 11.25 percent,
- b) Late Liquidity Window Interest Rates: Borrowing rate between 4:00 p.m. – 5:00 p.m. is decreased from 5.25 percent to 4.75 percent, while lending rate is decreased from 14.75 percent to 14.25 percent,
- c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions is decreased from 10.75 percent to 10.25 percent.

Recent data releases signal a partial recovery in domestic economic activity. However, resolving the problems in the global economy is likely to take a considerable period of time. External demand remains weak while domestic investment demand continues to contract. These developments suggest that the recovery in economic activity would be slow and gradual, and labor market conditions are not expected to improve anytime soon. Therefore, inflation is expected to remain at low levels in the foreseeable future. It should also be noted that inflation could rise temporarily in June due to tax hikes and base effects.

The tightness in financial conditions still persists to some extent, and uncertainties regarding the impact of the problems in financial markets on the real economy persist, suggesting that downside risks still remain. Therefore, the Committee envisages that the next rate cut may be measured, and that it seems necessary for the monetary policy to maintain an easing bias for a considerable period. The Committee will consider a deceleration in the pace of rate cuts or a pause should the signs of improvement in economic activity turn into a robust recovery.

The Committee has also assessed current demand conditions and projections of the Turkish lira liquidity. To facilitate the liquidity management of banks and to enhance the transmission of monetary policy, the Committee has approved the use of repos up to three-month maturity, in addition to the main funding instrument of one-week repos, when needed.

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.