

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: October 16, 2007

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 **17.25 to 16.75 percent**, and lending rate from **22.25 to 21.50 percent**,
- b) Late Liquidity Window Interest Rates: Borrowing rate applied between 4:00 p.m. – 5:00 p.m. from **13.25 to 12.75 percent**, lending rate from **25.25 to 24.50 percent**,
- c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions from **21.25 to 20.50 percent**.

Readings on economic activity and inflation are in line with the outlook presented in the July Inflation Report. While private consumption and investment demand exhibits signs of recovery, external demand moderates. Aggregate demand conditions continue to support the disinflation process. Services inflation continues its favorable course. Notwithstanding the risks related to energy, food, and administered prices, inflation is expected to decelerate owing to the lagged effects of strong monetary tightening.

The Committee closely monitors the developments in international liquidity conditions and credit markets. September rate cut decision led to a significant fall in both the medium and long-term interest rates, reducing the downward risks on medium term inflation posed by global economic developments.

In light of these developments, the Committee decided to continue the measured rate cuts. The Committee underlines that the current level of the short-term interest rates remains restrictive even after the recent policy rate cuts. The Committee assesses that, under the current policy stance envisaging a measured and cautious rate cut cycle, the risks on attaining the inflation target in the medium term are balanced. The **timing and extent** of further easing will depend on the incoming information regarding global liquidity conditions, external demand, public expenditures and other determinants of the medium term inflation outlook.

It should be emphasized that any new data or information related to the inflation outlook will lead the Committee to reconsider its stance.

Considering the downward trend in interest rates, the Committee decided to narrow the gap between borrowing and lending rates in order to limit the extent of potential fluctuations in overnight interest rates. In this regard, borrowing rates are reduced by **50 basis points**, while lending rates are cut by **75 basis points**. It should be noted, however, that the additional cut in lending rates is merely a technical adjustment.

The summary of the Monetary Policy Committee Meeting will be released within eight working days.