

## DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: January 24, 2011

### Participating Committee Members

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

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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.

Recent data releases confirm that the rebalancing between the domestic and external demand is ongoing as envisaged. Final domestic demand is decelerating and the contribution of net external demand to growth is increasing. Accordingly, the rebalancing process and the improvement in the current account deficit would continue in the forthcoming period.

The Committee has noted that annual inflation will stay at high levels in the short-term due to accumulated price increases that occurred during the final quarter of 2011. In order to prevent the potential second round effects, the Central Bank has delivered an important monetary tightening since October. Accordingly, domestic demand is expected to follow a moderate path in the forthcoming period, as suggested by recent trends in consumer loan growth and firms' domestic orders. Therefore, the Committee expects second round effects of the temporary price movements to remain contained and disinflation process to accelerate, especially in the final quarter of 2012 with the support of base effects.

The Committee has indicated that tight monetary policy stance should be maintained for a while in order to keep inflation outlook consistent with the medium term targets. However, given the prevailing uncertainties regarding the global economy, it would be appropriate to preserve the flexibility of the 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 adjusted in either direction, as needed.

Moreover, considering the ongoing improvement in the current account dynamics and the sudden swings in global conditions, the Committee has indicated that intraday foreign exchange sale auctions will be more effective and more consistent with the monetary policy objectives, compared to the regular foreign exchange sale auctions.

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.