

SUMMARY OF THE MONETARY POLICY COMMITTEE MEETING

Meeting Date: August 4, 2011

Global Developments

1. Monetary Policy Committee (Committee) has assessed the recent developments, evaluating the risk scenarios summarized in the Inflation Report, which were also assessed in the July, 21st 2011 meeting.
2. The Committee indicated that concerns regarding sovereign debt problems in some European economies and the global growth outlook have continued to intensify, increasing the risks highlighted in the July Committee meeting. Particularly, sovereign debt problems have spread from the peripheral countries of the Euro area to some core countries, and consequently, sovereign borrowing costs in Spain and Italy have reached historically high levels. These developments have significantly increased the uncertainties regarding global economy. Moreover, recent indicators on global economic activity have pointed to an increasingly worsening outlook and have been significantly below expectations, speeding up the deterioration in the risk appetite.
3. Accordingly, the Committee has approved the implementation of a comprehensive package which has been prepared by the Central Bank in order to contain the adverse effects of the prevailing global problems on domestic markets. The Committee has emphasized that the effects of the monetary policy on the economic activity are observed with some lag and thus the timing of the decision is important.

Measures Regarding Markets

4. In order to prepare the ground for an effective liquidity management in case of a further deterioration in the global risk appetite, the following measures were taken regarding Turkish lira and foreign exchange markets
 - In order to limit the potential downside volatility in the short-term interest rates in case of a need for a rapid injection of liquidity to the market, the Committee has decided to narrow the interest rate corridor via increasing the overnight borrowing rate by 350 basis points.

- A technical adjustment was approved to increase the efficiency of the central bank liquidity management and to facilitate a more balanced provision of liquidity across the system. To this end, it was agreed that each participating institution's bid for the weekly repo auctions could be limited by 20percent of the total auction amount.
 - In order to mitigate the fluctuations in the repo interest rates, it was agreed that the terms for maintenance period of reserve requirements would be changed. Accordingly, it was approved that the repo transactions that are subject to required reserves would be computed by taking the average of daily balances between two calculation periods, instead of being computed bi-weekly on Fridays.
5. Moreover, The Committee has agreed to closely monitor the developments, and if necessary, take measures to provide foreign exchange liquidity via appropriate methods and instruments. In this context;
- It was approved that foreign exchange liquidity would be provided to the market through foreign exchange selling auctions starting from August 5, 2011, on the days deemed necessary.
 - Along the same line, it was agreed that reserve requirement rates on foreign exchange liabilities would be decreased, when necessary.
 - It was agreed that a measured cut could be exercised for the interest rates at which banks are able to borrow foreign exchange from the Central Bank with one-week maturity, currently at 5.50 for USD and 6.50 for EURO, through the Foreign Exchange Deposit Market within the predetermined limits.
6. Overall, these measures aim at laying out the ground for a timely, controlled and effective provision of liquidity to the market in case of a possible financial turmoil that may be triggered by global developments.

Macroeconomic Outlook and Policy Rates

7. It was emphasized that, the implications of existing conditions on inflation and current account deficit have been already assessed thoroughly in the preceding meeting of the Committee and it has been agreed that the formulated policy measures would minimize the risks regarding price and financial stability.

8. The Committee has indicated that both the credit volume and the domestic demand decelerate at a desired pace due to the measures taken so far. In this respect, monthly current account balance is expected to improve steadily.
9. Recently, both the worsening outlook for global economic activity and rapidly increasing concerns on the debt sustainability in Europe has increased the risk of a renewed slowdown in the global economy.
10. The Committee members anticipate that the deteriorating growth outlook in Italy and Spain, our major trade partners, could have an adverse impact on external demand, whereas domestic demand would continue to moderate due to rising global uncertainty. Therefore, the ongoing slowdown in the domestic economic activity is expected to continue in the forthcoming period.
11. In light of these assessments, the Committee has indicated that the probability of the materialization of downside risks regarding global economy mentioned in the Inflation Report has increased. Consequently, a measured policy rate cut was delivered, and it was agreed that necessary liquidity support should be provided to the banking system.
12. The Committee has reiterated that these measures have contained the downside risks for our economy to a considerable extent; however, given the existing state of the global economy, it is important to monitor all developments closely, and to give the required policy response in a timely manner.