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DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: September 17, 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 7.75 percent to 7.25 percent, while lending rate is decreased from 10.25 percent to 9.75 percent,
- b) Late Liquidity Window Interest Rates: Borrowing rate between 4:00 p.m. – 5:00 p.m. is decreased from 3.75 percent to 3.25 percent, while lending rate is decreased from 13.25 percent to 12.75 percent,
- c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions is decreased from 9.25 percent to 8.75 percent.

Recent data releases indicate that, in line with the Committee's previous assessments, the ongoing recovery in economic activity will be gradual and protracted, External demand and domestic investment demand remain weak, while labor market conditions do not display a significant improvement. Moreover, consumption demand, after having increased markedly during the second quarter, is expected to display a weaker course in the third quarter. Therefore, in line with the perspective outlined in the Inflation Report, inflation is expected to remain at low levels for a long period of time.

The Committee expects that the cumulative policy rate cuts implemented since November 2008, provided that the improvements in global risk perceptions persist, would start to have some effect on credit markets in the forthcoming period. However, the weakness in labor markets is ongoing and lingering problems across the global economy are not resolved completely, suggesting that there are still uncertainties regarding the strength of the recovery. Therefore, the Committee reiterates that it will be necessary for the monetary policy to maintain an easing bias for a long period of time. The size and the duration of the rate cuts will depend on the pace of the recovery in economic activity. Moreover, further improvements in the risk premium may lead to a longer rate cut cycle.

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.