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19 March 2009

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: March 19, 2009

Committee Members

Durmuş Yılmaz (Governor), Erdem Başçı, Burhan Göklemmez, 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 11.50 percent to 10.50 percent, while lending rate is decreased from 14 percent to 13 percent,
- b) Late Liquidity Window Interest Rates: Borrowing rate between 4:00 p.m. – 5:00 p.m. is decreased from 7.5 percent to 6.5 percent, while lending rate is decreased from 17 percent to 16 percent,
- c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions is decreased from 13 percent to 12 percent.

Recent data releases indicate that domestic economic activity continues to slow down. Problems in international credit markets persist while forecasts of global economic growth are consistently revised downwards, suggesting that the economic activity is not likely to recover anytime soon. Therefore, downward pressures on inflation are expected to continue. Moreover, ongoing declines in oil and other commodity prices are having a favorable impact on disinflation. The Committee has noted that inflation may display a temporary rise in March due to a sharp increase in unprocessed food prices, before resuming its downward trend.

The Committee has indicated that the rate cuts have lowered the probability of significantly undershooting the end-year inflation target. However, 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 remain high, suggesting that downside risks still remain. The Central Bank will continue to take the necessary measures to contain the adverse effects of the global financial turmoil on the domestic economy, provided that they do not conflict with the price stability objective. Looking forward, the Committee envisages that the next rate cut may be measured, and that it may be necessary for the monetary policy to maintain an easing bias for a considerable period.

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.