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DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: September 20, 2011

Participating Committee Members

Erdem Başçı (Governor), Turalay Kenç, Necati Şahin, M. İbrahim Turhan,
Abdullah Yavaş, Mehmet Yörükoglu.

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 9 percent, the interest rate on borrowing facilities provided for primary dealers via repo transactions at 8 percent,
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate at 0 percent, lending rate at 12 percent.

Recent data releases suggest that there will be a notable reduction in economic growth in the second half of the year. External demand remains weak, and domestic demand continues to slow down. The deceleration in credit growth and domestic demand combined with the exchange rate movements have been contributing to the rebalancing of domestic and external demand. Accordingly, the Committee expects a significant improvement in the current account balance in the forthcoming period.

The Committee has noted that core inflation may continue to rise in the short-term. However, due to the slowdown in economic activity, it is expected that the second round effects of exchange rate movements would be limited, and thus the increase in inflation would be temporary. Accordingly, the Committee has indicated that inflation outlook for the end of 2012 is consistent with the 5 percent target.

Given the uncertainties regarding the global economy, it is now more important to monitor all developments closely, and to take the required policy measures in a timely manner. Therefore, the Committee has also reiterated that all policy instruments may be eased should global economic problems further intensify and the slowdown in domestic economic activity becomes more pronounced.

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.