

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: January 20, 2011

Participating 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 set the short term interest rates as follows:

- a) One-week repo rate (the policy rate) is reduced from 6.5 percent to 6.25 percent,
- b) Overnight Interest Rates: Borrowing and lending rates are kept constant at 1.50 percent and 9 percent, respectively. The interest rate on borrowing facilities provided for primary dealers via repo transactions is kept constant at 8 percent.
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate is kept constant at 0 percent, while lending rate is kept constant at 12 percent.

Recent releases have been consistent with the outlook presented in the October Inflation Report. Economic activity continues to recover amid strong domestic demand, yet, industrial capacity utilization rates remain below their pre-crisis levels due to weak external demand. Although employment conditions continue to improve, unemployment rates remain at high levels. Therefore, aggregate demand conditions do not exert upside pressures on inflation. Inflation is expected to decline significantly in January, remain below the end-year target of 5.5 percent during the first quarter, and reach the year-end target after displaying some fluctuations starting with the second quarter.

The impact of the measures taken in December to contain credit supply will be seen in the forthcoming days. Additional macroprudential measures to restrict credit expansion, to be taken before the next meeting, will provide more flexibility for monetary policy. In this respect, additional hikes in required reserve ratios for short term liabilities will be necessary.

In order to preserve both financial stability and price stability, a policy mix of a lower policy rate coupled with higher reserve requirements emerges as an optimal policy mix under the current conditions. In this respect, the Committee assesses that, the net impact of the measures taken—and to be taken in the future—will be restrictive.

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.