

Press Release on Interest Rates

27 April 2023

No: 2023-17

Participating Committee Members

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The Monetary Policy Committee (the Committee) has decided to keep the policy rate (one-week repo auction rate) constant at 8.5 percent.

Although recently released data point to a stronger economic activity than anticipated, recession concerns in developed economies as a result of geopolitical risks and interest rate hikes continue, and conditions threatening financial stability, triggered by successive bank failures, have emerged. While the negative consequences of supply constraints in some sectors, particularly basic food, have been alleviated by the strategic solutions facilitated by Türkiye, the high level in producer and consumer inflation continues on an international scale. The effects of high global inflation on inflation expectations and international financial markets are closely monitored. While the divergence in monetary policy steps and communications of central banks in advanced economies continue due to their diverse economic outlook, coordinated steps are taken that prioritize financial stability through swap agreements and new liquidity facilities. Financial markets have been adjusting their expectations that the central banks would end the rate hike cycles in the near term.

Before the disaster of the century, leading indicators have been pointing to a stronger domestic demand compared to foreign demand as well as an increase in the growth trend in the first quarter of 2023. The impact of the earthquake on production, consumption, employment and expectations is being extensively evaluated. While the earthquake is expected to affect economic activity in the near term, it is anticipated that it will not have a permanent impact on performance of the Turkish economy in the medium term. Leading indicators show that the economic activity in the earthquake zone has been recovering faster than expected. While share of sustainable components of economic growth remains high, the stronger-than-expected contribution of tourism revenues to the current account balance continues throughout the year. On the other hand, domestic consumption demand, high level of energy prices and the weak economic activity in main trade partners keep the risks on current account balance alive. Sustainable current account balance is important for price stability. The rate of credit growth and allocation of funds for real economic activity purposes are closely monitored. As announced in the 2023 Monetary Policy and Liraization Strategy document, the Committee will continue to decisively use the tools supporting the effectiveness of the monetary transmission mechanism and the entire policy toolset, particularly funding channels, will be aligned with liraization targets. The Committee will prioritize the creation of supportive financial conditions in order to minimize the effects of the disaster and support the necessary recovery.

While level and underlying trend of inflation have been improved with the support of the implemented integrated policy approach, the effect of earthquake-driven supply-demand imbalances on inflation is closely monitored. It has become even more important to keep financial conditions supportive to preserve the growth momentum in industrial production and the positive trend in employment after the earthquake. Accordingly, the Committee has decided

to keep the policy rate unchanged. The Committee assessed that the current monetary policy stance is adequate to support the necessary recovery in the aftermath of the earthquake by maintaining price stability and financial stability. The effects of the earthquake in the first half of 2023 will be closely monitored.

The CBRT will continue to use all available instruments decisively until strong indicators point to a permanent fall in inflation and the medium-term 5 percent target is achieved in pursuit of the primary objective of price stability. The CBRT will implement Liraization Strategy in order to create an institutional basis for permanent and sustainable price stability. Stability in the general price level will foster macroeconomic stability and financial stability through the fall in country risk premium, continuation of the reversal in currency substitution and the upward trend in foreign exchange reserves, and durable decline in financing costs. This would create a viable foundation for investment, production and employment to continue growing in a healthy and sustainable way.

The Committee will continue to take its decisions in a transparent, predictable and data-driven framework.

The summary of the Monetary Policy Committee Meeting will be released within five working days.