

Press Release on Interest Rates

20 October 2022

No: 2022-42

Participating Committee Members

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The Monetary Policy Committee (MPC) has decided to reduce the policy rate (one-week repo auction rate) from 12 percent to 10.5 percent.

The weakening effects of geopolitical risks on global economic activity continue to increase. Global growth forecasts for the upcoming period are being revised downwards and recession is increasingly assessed as an inevitable risk factor. While the negative consequences of supply constraints in some sectors, particularly basic food, have been alleviated by the strategic solutions facilitated by Türkiye, the upward trend in producer and consumer prices continues on an international scale. The effects of high global inflation on inflation expectations and international financial markets are closely monitored. Moreover, central banks in advanced economies emphasize that the rise in inflation may last longer than previously anticipated due to rising energy prices, imbalances between supply and demand, and rigidities in labor markets. The divergence in monetary policy steps and communications of central banks in advanced economies continue to increase due to their diverse economic outlook. It is observed that central banks continue their efforts to develop new supportive measures and tools to cope with the increasing uncertainties in financial markets.

A strong growth was observed in the first half of 2022. Leading indicators for the second half of the year continue pointing to a slowdown in growth due to the weakening foreign demand. Pressures on the manufacturing industry due to foreign demand and their currently limited impact on domestic demand and supply capacity are being monitored closely. Compared to peer economies, job creation has been stronger. Considering the sectors that contribute to the employment increase, it is observed that the growth dynamics are supported by structural gains. While share of sustainable components of economic growth increases, the stronger than expected contribution of tourism revenues to the current account balance continues. On the other hand, high course of energy prices and the likelihood of a recession 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. In addition, the spread between policy rate and the loan interest rates driven by the announced macroprudential measures is closely monitored. The Committee will continue to further strengthen the tools supporting the effectiveness of the monetary transmission mechanism.

Increase in inflation is driven by the lagged and indirect effects of rising energy costs resulting from geopolitical developments, effects of pricing formations that are not supported by economic fundamentals, strong negative supply shocks caused by the rise in global energy, food and agricultural commodity prices. The Committee expects disinflation process to start on the back of measures taken and decisively implemented for strengthening sustainable price and financial stability along with the resolution of the ongoing regional conflict. The effects of slowing foreign demand on aggregate demand conditions and production are closely monitored. It is

critically important that financial conditions remain supportive to preserve the growth momentum in industrial production and the positive trend in employment in a period of increasing uncertainties regarding global growth as well as further escalation of geopolitical risks. Accordingly, the Committee has decided to reduce the policy rate by 150 basis points. The Committee evaluated taking a similar step in the following meeting and ending the rate cut cycle. To create an institutional basis for sustainable price stability, the comprehensive review of the policy framework continues with the aim of encouraging permanent and strengthened liraization in all policy tools of the CBRT. The credit, collateral and liquidity policy actions, of which the review process is finalized, will continue to be implemented to strengthen the effectiveness of the monetary policy transmission mechanism.

The CBRT will continue to use all available instruments decisively within the framework of liraization strategy 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. 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.