

Decision of the Monetary Policy Committee

December 12, 2019, No: 2019-49

Participating Committee Members

Murat Uysal (Governor), Murat Çetinkaya, Ömer Duman, Uğur Namık Küçük, Oğuzhan Özbaş, Emrah Şener, Abdullah Yavaş.

The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 14 percent to 12 percent.

Recent data indicate that recovery in economic activity continues. Sectoral diffusion of economic activity continues to improve. However, investment demand remains weak. While favorable effects of improved competitiveness prevail, weakening global economic outlook tempers external demand. As the contribution of net exports to economic growth declines, economic recovery is expected to be sustained with the help of the ongoing disinflation process and improvement in financial conditions. Current account balance, which has recently recorded significant improvement, is expected to maintain a moderate course with the contribution of supportive policy measures.

Weakness in global economic activity and low levels of global inflation strengthen expectations regarding the continuation of expansionary monetary policies in advanced economies. While current global financial conditions support the demand for emerging market assets and the risk appetite, rising protectionism and uncertainty regarding global economic policies are closely monitored in terms of their impact on both capital flows and international trade.

Inflation outlook continued to improve while inflation expectations displayed a wide-spread decline. Thanks to the stable course of the Turkish lira as well as the developments in domestic demand conditions and producer prices, core inflation indicators have displayed a mild trend. The improvement in macroeconomic indicators, inflation in particular, supports the fall in country risk premium and contributes to a benign outlook in cost factors. Underlying trend indicators, supply side factors and import prices lead to an improvement in the inflation outlook. In light of these developments, recent forecasts suggest that inflation is likely to materialize close to the lower bound of the October Inflation Report projections for the end of the year, with risks around the disinflation path for 2020 being balanced. Accordingly, considering all the factors affecting inflation outlook, the Committee decided to reduce the policy rate by 200 basis points. At this point, the current monetary policy stance is considered to be consistent with the projected disinflation path.

The Committee assesses that maintaining a sustained disinflation process is the key for achieving lower sovereign risk, lower long-term interest rates, and stronger economic recovery. Keeping the disinflation process in track with the targeted path requires the continuation of a cautious monetary stance. In this respect, the extent of the monetary tightness will be determined by considering the indicators of the underlying inflation trend to ensure the continuation of the disinflation process. The Central Bank will continue to use all available instruments in pursuit of the price stability and financial stability objectives.

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.