

Decision of the Monetary Policy Committee

November 19, 2020, No: 2020-68

Participating Committee Members

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

The Monetary Policy Committee (MPC) has decided to:

- increase the policy rate (one-week repo auction rate) from 10.25 percent to 15 percent, and
- provide all funding through the main policy rate, which is the one-week repo auction rate.

Global economic activity has recovered partially in the third quarter. However, uncertainties regarding global economic activity heightened due to the recent increase in Covid-19 cases.

The recovery in economic activity continues. Partial restrictions introduced due to the increasing number of cases heighten uncertainties on the short-run outlook of economic activity, particularly the services sector. Besides, strengthening domestic demand, due to the lagged effects of strong credit impulse during the pandemic, affects the current account balance adversely through the imports channel.

The lagged effects of depreciation in Turkish lira, increasing international food prices and deterioration in inflation expectations affect the inflation outlook adversely. While tracked data for November point to an increase in inflation due to the recent exchange rate volatility, this is assessed to be temporary with the decisive monetary policy stance. Accordingly, the Committee has decided to implement a transparent and strong monetary tightening in order to eliminate risks to the inflation outlook, contain inflation expectations and restore the disinflation process.

In the periods ahead, all factors affecting inflation will be taken into account, and the tightness of monetary policy will be decisively sustained until a permanent fall in inflation is achieved.

The permanent establishment of a low inflation environment will affect macroeconomic and financial stability positively through the fall in country risk premium, reversal in the dollarization trend, accumulation of foreign exchange reserves and the perpetual decline in financing costs.

The Central Bank will attain its main objective of achieving and maintaining price stability by adopting transparency, predictability and accountability principles of the inflation targeting regime. In light of these principles, the Central Bank funding will be provided through the one-week repo rate, which will be the main policy tool and the only indicator for the monetary stance.

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.