

Decision of the Monetary Policy Committee

May 21, 2020, No: 2020-30

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 8.75 percent to 8.25 percent.

As developments regarding the spread of the coronavirus substantially weaken global growth outlook, central banks in advanced and emerging economies continue to take expansionary measures. While uncertainties on global economic recovery remain high, normalization steps taken by several countries are being watched. The pandemic disease is closely monitored for its evolving global impact on capital flows, financial conditions, international trade and commodity prices.

Having displayed a strong upward trend in January and February, thanks to the improvement in financial conditions, economic activity has started to weaken in mid-March due to the effects of the coronavirus pandemic on external trade, tourism and domestic demand. While the weakening in economic activity became more pronounced in April, high-frequency indicators for the first half of May display signs of bottoming-out following the steps taken towards partial normalization. In order to contain negative effects of the pandemic on the Turkish economy, it is of crucial importance to ensure the healthy functioning of financial markets, the credit channel and firms' cash flows. In this respect, recent monetary and fiscal measures will contribute to financial stability and post-pandemic recovery by supporting the potential output of the economy. Despite the fall in exports and tourism revenues due to the pandemic, current account balance is expected to follow a moderate course throughout the year due to the restraining effects of commodity prices and imports.

Developments in inflation expectations and domestic demand conditions have contributed to a mild trend in core inflation indicators. Despite the recent depreciation in the Turkish lira due to global developments, international commodity prices, especially crude oil and metal prices, affect inflation outlook favorably. While the rise in unit costs resulting from declining production and sales is closely monitored, the disinflationary effects of aggregate demand conditions are estimated to have increased. Although consumer inflation might follow a slightly higher course in the short-term due to seasonal and pandemic-related effects on food prices, demand-driven disinflationary effects will be more prevalent in the second half of the year. Accordingly, considering all factors affecting the inflation outlook, the Committee decided to make a measured cut in the policy rate. Under the current monetary policy stance, inflation outlook is considered to be in line with the year-end inflation projection.

The Committee assesses that maintaining a sustained disinflation process is a key factor 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, monetary stance 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.