

Decision of the Monetary Policy Committee

March 17, 2020, No: 2020-15

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 10.75 percent to 9.75 percent.

As developments regarding the spread of the coronavirus have weakened global growth outlook, central banks in advanced and emerging economies have taken coordinated expansionary measures. The pandemic disease is closely monitored for its evolving global impact on capital flows, financial conditions, international trade and commodity prices.

In the period preceding the coronavirus outbreak, Turkey's macroeconomic indicators improved significantly. A sustained fall in inflation and a sizable adjustment in the current account were achieved. The recovery of economic activity became stronger along with the improvement in financial conditions. In this period, foreign currency indebtedness of nonfinancial firms decreased; liquidity and capital buffers of the banking sector strengthened. The achievements of the rebalancing process have increased the resilience of the Turkish economy against unfavorable shocks. In order to contain negative effects of the coronavirus 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. Accordingly, with an aim to support financial stability, the central bank will implement a comprehensive set of measures.

Developments in inflation expectations, domestic demand conditions and producer prices have contributed to a mild trend in core inflation indicators. Despite the recent depreciation in the Turkish lira due to global developments, the sharp fall in international commodity prices, especially crude oil and metal prices, affects inflation outlook favorably. Furthermore, due to the weakening in global trade and measures such as travel restrictions, the disinflationary effect of aggregate demand conditions has increased to some extent. In this respect, it is considered that downside risks on the year-end inflation projection have increased. Accordingly, the Committee decided to make a 100 basis point cut in the policy rate.

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.