

Press Release on Interest Rates

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Participating Committee Members

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The Monetary Policy Committee (MPC) has decided to increase the policy rate (one-week repo auction rate) from 17 percent to 19 percent.

Global growth outlook has improved and international commodity prices have risen on the back of expansionary monetary and fiscal policies as well as positive developments in the vaccination process. Rising global inflation expectations lead to uncertainties about advanced economy monetary policies, and volatility in global financial markets.

Economic activity is on a strong course. As the pandemic-related restrictions are being eased, economic activity is expected to pick up in services and related sectors. Nevertheless, risks for economic activity remain significant depending on possible developments regarding the course of the pandemic. Strong domestic demand due to the cumulative effects of high credit growth during the pandemic and the rise in import prices continue to adversely affect the current account balance. On the other hand, credit growth, which has slowed down amid tighter financial conditions, has recently trended upwards.

Domestic demand conditions, cumulative cost effects, in particular the exchange rate effects, increasing international food and other commodity prices and high levels of inflation expectations continue to affect the pricing behavior and inflation outlook adversely. On the other hand, supply constraints intensifying in some sectors and the adjustments in wages and administered prices maintain their importance for the medium-term inflation outlook. While the expectation that the decelerating impact of the monetary tightening on credit and domestic demand to become more significant is maintained, the projected gradual waning in demand and cost factors is being delayed by the recent upward trend in credit growth and increase in import costs.

Considering the upside risks to inflation expectations, pricing behavior and the medium-term inflation outlook associated with these developments, the MPC has decided to implement a front-loaded and strong additional monetary tightening.

The tight monetary policy stance will be maintained decisively, taking into account the end-2021 forecast target, for an extended period until strong indicators point to a permanent fall in inflation and price stability. In regard to the indicators pointing to a permanent fall in inflation and price stability, indicators for the underlying trend of inflation and pricing behavior, diffusion indices, demand and cost factors, and inflation expectations will continue to be monitored closely for their compatibility with the targets in the forecast horizon. Additional monetary tightening will be delivered if needed.

The balance between the monetary policy rate and actual/expected inflation will be sustained decisively to maintain a strong disinflationary effect until permanent price stability and the 5 percent target are reached. Sustaining the tight monetary policy stance in such a manner,

besides attaining permanent price stability, will foster macroeconomic and financial stability positively by facilitating the fall in country risk premium, the reversal in currency substitution, the accumulation of foreign exchange reserves and the perpetual decline in financing costs.

In its decision-making process, the CBRT adopts a framework with a medium term perspective, based on analyzing all factors affecting inflation and the interaction between these factors. 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.