

Press Release on Interest Rates

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Participating Committee Members

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The Monetary Policy Committee (MPC) has decided to keep the policy rate (one-week repo auction rate) constant at 19 percent.

Worldwide speeding up of vaccination rollout, especially in developed countries, supports the global economic recovery. Nonetheless, economies advancing in their vaccination programs exhibit a stronger performance in economic activity by easing the restrictions. Strong recovery in global demand, high course of commodity prices, supply constraints in some sectors and rise in transportation costs have led to producer and consumer price increases internationally. Unfavorable effects of weather conditions in major agricultural commodity exporting countries are observed on global food prices. The effects of rising global inflation and inflation expectations on international financial markets remain significant.

Leading indicators show that domestic economic activity remains strong in the third quarter, with the help of robust external demand. The acceleration of domestic vaccination rollout facilitates the recovery in services and tourism sectors, which have been adversely affected by the pandemic, and leads to a more balanced composition in economic activity. Commercial loan growth exhibits a mild course. The Committee monitors the adequacy of the implemented macroprudential measures to curb personal loan growth, which recently displayed a rise due to the reopening and deferred demand. Favorable external demand conditions and current tight monetary policy impact the current account balance positively. The current account is expected to post a surplus in the rest of the year due to the strong upward trend in exports, and the strong progress in the vaccination program stimulating tourism activities. The improvement in the current account balance is important for the price stability objective.

In addition to the recent increases in import prices and administered prices, demand conditions, supply constraints in some sectors, possible volatility in inflation during the summer due to the reopening, and high levels of inflation expectations continue to pose risks to the pricing behavior and inflation outlook. The increase in inflation in July was driven by the rise in food inflation, due to supply-side effects in some products led by climate conditions, the high levels of international agricultural commodity and food prices, as well as the effects of the reopening. On the other hand, the decelerating impact of the monetary tightening on credit and domestic demand is being observed. Taking into account the high levels of inflation and inflation expectations, the current tight monetary policy stance will be maintained decisively until the significant fall in the Inflation Report's forecast path is achieved. Accordingly, the MPC has decided to keep the policy rate unchanged.

The CBRT will continue to use decisively all available instruments in pursuit of the primary objective of price stability. The policy rate will continue to be determined at a level above inflation to maintain a strong disinflationary effect until strong indicators point to a permanent fall in inflation and the medium-term 5 percent target is reached.

Stability in the general price level will foster macroeconomic stability and financial stability through the fall in country risk premium, reversal in currency substitution, accumulation of foreign exchange reserves and perpetual decline in financing costs. This would create a viable foundation for investment, production and employment to continue growing in a healthy and sustainable way.

The Committee will continue to take its decisions in a transparent, predictable and data-driven framework.

The summary of the Monetary Policy Committee Meeting will be released within five working days.