

Decision of the Monetary Policy Committee

July 23, 2020, No: 2020-38

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 keep the policy rate (one-week repo auction rate) constant at 8.25 percent.

Developments regarding the spread of the coronavirus substantially weakened global growth in the second quarter. While global economic activity has shown signs of partial recovery in the third quarter following the normalization steps taken by several countries, uncertainties on global economic recovery remain high. Advanced and emerging economies continue to take expansionary monetary and fiscal measures. The pandemic disease is closely monitored for its evolving global impact on capital flows, financial conditions, international trade and commodity prices.

Economic recovery, which started in May following gradual steps towards normalization, is gaining pace. Recent monetary and fiscal measures that aim to contain negative effects of the pandemic on the Turkish economy contribute to financial stability and economic recovery by supporting the potential output of the economy. Although tourism revenues declined due to the pandemic, easing travel restrictions are expected to contribute to a partial improvement. The recovery in exports of goods and low levels of commodity prices will support the current account balance in the upcoming periods.

Despite the restraining effects of aggregate demand conditions, pandemic-related rise in unit costs have led to an increase in the trends of core inflation indicators. International commodity prices have continued to restrain consumer inflation, while food inflation has risen due to seasonal and pandemic-related effects. As the normalization process continues, supply-side factors, which have prevailed recently due to pandemic-related restrictions, will phase out. Indeed, leading indicators show that monthly price increases have started to slow down in services groups that have been subject to capacity constraints during the normalization process. The Committee maintains the view that demand-driven disinflationary effects will become more prevalent in the second half of the year, but risks on the end-year projection are considered to be on the upside due to recent realizations in inflation. Accordingly, considering all factors affecting the inflation outlook, the Committee decided to keep the policy rate unchanged.

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.