

# Press Release on Interest Rates

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## Participating Committee Members

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The Monetary Policy Committee (MPC) has decided to reduce the policy rate (one-week repo auction rate) from 18 percent to 16 percent.

Despite the recovery in global economic activity in the first half of the year, recently published confidence indices have started to decline due to the effect of the pandemic. Nonetheless, despite the increase in the vaccination rate, new variants keep the downside risks to global economic activity alive. 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. While the effects of high global inflation on inflation expectations and international financial markets are closely monitored, central banks in advanced economies assess that the rise in inflation would be mostly temporary along with normalization in demand composition, easing of supply constraints and waning base effects. Accordingly, central banks in advanced economies continue their supportive monetary stances and asset purchase programs.

Leading indicators show that domestic economic activity remains strong, with the help of robust external demand. The spread of domestic vaccination throughout the society facilitates the recovery in services, tourism and related sectors, which have been adversely affected by the pandemic, and leads to a more balanced composition in economic activity. While the demand for durable consumer goods slows down, a recovery is observed in non-durable consumer goods. The improvement in annualized current account is expected to continue in the rest of the year due to the strong upward trend in exports, and the strengthening of this trend is important for the price stability objective.

Recent increase in inflation has been driven by supply side factors such as rise in food and import prices, especially in energy, and supply constraints, increase in administered prices and demand developments due to the reopening. It is assessed that these effects are due to transitory factors. On the other hand, the decelerating impact of the monetary tightening on credit and domestic demand is being observed. The tightness in monetary stance has started to have a higher than envisaged contractionary effect on commercial loans. In addition, strengthened macroprudential policy framework has started to curb personal loan growth. The Committee evaluated the analyses to decompose the impact of demand factors that monetary policy can have an effect, core inflation developments and supply shocks. Accordingly the Committee decided to reduce the policy rate by 200 basis points to 16 percent. Nevertheless, the Committee assessed that, till the end of the year, supply-side transitory factors leave limited room for the downward adjustment to the policy rate.

In order to contain climate-based and other environmental risks, the Committee also decided to support sustainable finance initiatives as a long-term policy without prejudice to the main objectives of monetary policy.

The CBRT will continue to use decisively all available instruments until strong indicators point to a permanent fall in inflation and the medium-term 5 percent target is achieved in pursuit of the primary objective of price stability. Stability in the general price level will foster macroeconomic stability and financial stability through the fall in country risk premium, continuation of the reversal in currency substitution and the upward trend in foreign exchange reserves, and durable 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.