

Decision of the Monetary Policy Committee

July 25, 2019, No: 2019 -29

Participating Committee Members

Murat Uysal (Governor), Ömer Duman, Uğur Namık Küçük, Emrah Şener, Abdullah Yavaş.

The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 24 percent to 19.75 percent.

Recently released data indicate a moderate recovery in the economic activity. Goods and services exports continue to display an upward trend despite the weakening in the global economic outlook, indicating improved competitiveness. In particular, strong tourism revenues support the economic activity through direct and indirect channels. Looking forward, net exports are expected to contribute to the economic growth and the gradual recovery is likely to continue with the help of the disinflation trend and the partial improvement in financial conditions. The composition of growth is having a positive impact on the external balance. Current account balance is expected to maintain its improving trend.

Recently, weaker global economic activity and heightened downside risks to inflation have strengthened the possibility that advanced economy central banks will take expansionary monetary policy steps. While these developments support the demand for emerging market assets and the risk appetite, rising protectionism and uncertainty regarding global economic policies are closely monitored in terms of their impact on both capital flows and international trade.

Inflation outlook continued to improve. In the second quarter, inflation displayed a significant fall with the contribution from a deceleration in unprocessed food and energy prices. Domestic demand conditions and the tight monetary policy continue to support disinflation. Underlying trend indicators, supply side factors, and import prices lead to an improvement in the inflation outlook. In light of these developments, recent forecast revisions suggest that inflation is likely to materialize slightly below the projections of the April Inflation Report by the end of the year. Accordingly, considering all the factors affecting inflation outlook, the Committee decided to reduce the policy rate by 425 basis points.

The Committee assesses that maintaining a sustained disinflation process is the key 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, the extent of the monetary tightness 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.