

Decision of the Monetary Policy Committee

August 20, 2020, No: 2020-49

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.

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 maintain expansionary monetary and fiscal stances. 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 contributed to financial stability and economic recovery by supporting the potential output of the economy. While commercial loans have recently started to normalize, consumer loans have remained strong. The recent upturn in imports, which has resulted from deferred demand as well as pandemic-related liquidity and credit policies, is expected to moderate with the phasing out of these policy measures. Although tourism revenues declined due to the pandemic, easing of travel restrictions has started to contribute to a partial improvement. The recovery in exports of goods, relatively low levels of commodity prices and the level of the real exchange rate will support the current account balance in the upcoming periods.

Along with the pandemic-related rise in unit costs, exchange rate and credit developments restrain the demand-side disinflationary effects, and the trends of core inflation indicators have increased. As the normalization process continues, supply-side factors, which have prevailed recently due to pandemic-related restrictions, will phase out. The gradual normalization of pandemic-specific financial measures and recent tightening steps taken in liquidity management are judged to support macrofinancial stability. However, depending on the course of the pandemic, uncertainties regarding domestic and external demand conditions remain significant. Accordingly, the Committee decided to keep the policy rate unchanged, while continuing with liquidity measures.

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.