

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 9 percent.

Leading indicators point to continuation of recession concerns in developed economies as a result of ongoing geopolitical risks and interest rate hikes. While the negative consequences of supply constraints in some sectors, particularly basic food, have been alleviated by the strategic solutions facilitated by Türkiye, the high level in producer and consumer inflation continues on an international scale. The effects of high global inflation on inflation expectations and international financial markets are closely monitored. The divergence in monetary policy steps and communications of central banks in advanced economies continue to increase due to their diverse economic outlook. It is observed that central banks continue their efforts to develop new supportive measures and tools to cope with the increasing uncertainties in financial markets. Additionally, financial markets started to adjust their expectations that the central banks would end the rate hike cycles in the near term on the back of the increasing recession risks.

A strong growth was observed in the first three quarters of 2022. Leading indicators for the last quarter of the year continue pointing to a slowdown in growth due to the weakening foreign demand. However, the effects of foreign demand-based pressures observed in the manufacturing industry on domestic demand and supply capacity currently remain limited. Compared to peer economies, job creation has been stronger. Considering the sectors that contribute to the employment increase, it is observed that the growth dynamics are supported by structural gains. While share of sustainable components of economic growth increases, the stronger than expected contribution of tourism revenues to the current account balance continues. On the other hand, high level of energy prices and the likelihood of a recession in main trade partners keep the risks on current account balance alive. Sustainable current account balance is important for price stability. The rate of credit growth and allocation of funds for real economic activity purposes are closely monitored. The Committee will continue to decisively use the tools supporting the effectiveness of the monetary transmission mechanism and the entire policy toolset, particularly funding channels, will be aligned with liraization targets. The comprehensive set of policies to be implemented will be published in the 2023 Monetary and Exchange Rate document in December.

Increase in inflation has been driven by the lagged and indirect effects of rising energy costs resulting from geopolitical developments, effects of pricing formations that are not supported by economic fundamentals, strong negative supply shocks caused by the rise in global energy, food and agricultural commodity prices. The Committee expects disinflation process to start on the back of measures taken and decisively implemented for strengthening sustainable price and financial stability along with the resolution of the ongoing regional conflict. The effects of slowing foreign demand on aggregate demand conditions and production are closely monitored. It is critically important that financial conditions remain supportive for the sustainability of structural

gains in supply and investment capacity by preserving the growth momentum in industrial production and the positive trend in employment in a period of increasing uncertainties regarding global growth as well as further escalation of geopolitical risks. Accordingly, the Committee has decided to keep the policy rate unchanged. Considering the increasing risks regarding global demand, the Committee evaluated that the current policy rate is adequate. To create an institutional basis for sustainable price stability, the comprehensive review of the policy framework continues with the aim of encouraging permanent and strengthened liraization in all policy tools of the CBRT. The credit, collateral and liquidity policy actions, of which the review process is finalized, will continue to be implemented to strengthen the effectiveness of the monetary policy transmission mechanism.

The CBRT will continue to use all available instruments decisively within the framework of liraization strategy 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.