

# 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 16 percent to 15 percent.

Despite the recovery in global economic activity in the first half of the year and 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 on the back of rising energy prices and imbalances between supply and demand may last longer than previously anticipated. 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, recovery continues 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. The revision in the monetary policy stance began to affect commercial loans positively. In addition, developments in consumer loans are closely monitored. 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 and decided to reduce the policy rate by 100 basis points to 15 percent. The Committee expects that the transitory effects of supply-side factors and other factors beyond monetary policy's control on price increases will persist through the first half of 2022. The Committee will consider to complete the use of the limited room implied by these factors in December.

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.