

Decision of the Monetary Policy Committee

24 December 2020

No: 2020-75

Participating Committee Members

Naci Ağbal (Governor), Murat Çetinkaya, Ömer Duman, Uğur Namık Küçük, Oğuzhan Özbaş, Emrah Şener, Abdullah Yavaş.

The Monetary Policy Committee (MPC) has decided to increase the policy rate (one-week repo auction rate) from 15 percent to 17 percent.

Global economic activity data indicate that partial recovery since the third quarter continues. However, despite the positive developments regarding the vaccine, uncertainties surrounding the global economic activity prevail due to the recent increase in Covid-19 cases.

National income data and indicators for the last quarter point to a strong course in economic activity. However, restrictions introduced due to the increasing number of cases create uncertainties on the short-run outlook of economic activity, particularly the services sector. Besides, strengthening domestic demand, due to the cumulative effects of high credit growth during the pandemic, increases the current account deficit.

Domestic demand conditions, cumulative cost effects, in particular the exchange rate effects, increasing international food and other commodity prices and deterioration in inflation expectations continue to affect the pricing behavior and inflation outlook adversely. Accordingly, the MPC, taking into account the end-2021 forecast target, has decided to implement a strong monetary tightening, in order to eliminate risks to the inflation outlook, contain inflation expectations and restore the disinflation process as soon as possible.

In the forthcoming period, tightness of monetary policy stance will be decisively sustained until strong indicators point to a permanent fall in inflation in line with the targets and to price stability.

The permanent establishment of a low inflation environment will affect macroeconomic and financial stability positively through the fall in country risk premium, the beginning of reverse currency substitution, accumulation of foreign exchange reserves and the perpetual decline in financing costs.

In its decision-making process, the CBRT adopts a framework with a medium term perspective, based on analyzing all factors affecting inflation and the interaction between these factors. 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.