

## **Press Release on Interest Rates**

21 September 2023 No: 2023-35

## **Participating Committee Members**

Hafize Gaye Erkan (Governor), Osman Cevdet Akçay, Elif Haykır Hobikoğlu, Yaşar Fatih Karahan, Hatice Karahan.

The Monetary Policy Committee (the Committee) has decided to raise the policy rate (the one-week repo auction rate) from 25 percent to 30 percent.

The Committee decided to continue the monetary tightening process in order to establish the disinflation course as soon as possible, to anchor inflation expectations, and to control the deterioration in pricing behavior.

Inflation readings were above expectations in July and August. As the strong course of domestic demand and the stickiness of services inflation persist, the increase in oil prices and the ongoing deterioration in inflation expectations pose additional upside risks to inflation. These factors imply a year-end inflation close to the upper bound of the forecast range provided in the Inflation Report (Report). The Committee evaluated that tax regulations and cost pressures stemming from wages and exchange rates, which have been pushing up inflation, have broadly passed through to prices, and that the underlying trend in monthly inflation is on course to decline. Given the monetary tightening stance, the Committee is determined to establish the disinflation course in 2024 in line with the Report.

Foreign direct investment, improvement in external financing conditions, continued increase in foreign exchange reserves, the positive impact of tourism revenues on current account balance, and increasing domestic and foreign demand for Turkish lira denominated assets will contribute significantly to price stability.

The policy rate will be determined in a way that will create monetary and financial conditions necessary to ensure a decline in the underlying trend of inflation and to reach the 5 percent inflation target in the medium term. Monetary tightening will be further strengthened as much as needed in a timely and gradual manner until a significant improvement in the inflation outlook is achieved.

To increase the functionality of market mechanisms and strengthen macro financial stability, the Committee continues to simplify and improve the existing micro- and macroprudential framework. Guided by impact analyses, the simplification process will continue to be gradual. In this context, recent regulations targeting a rising share of Turkish lira deposits strengthen the monetary transmission mechanism. In addition to the increase in the policy rate, the Committee will continue to make decisions on quantitative tightening and selective credit tightening to support the monetary policy stance.

Indicators of inflation and underlying trend of inflation will be closely monitored and the Committee will continue to decisively use all the tools at its disposal in line with its main objective of price stability.

The Committee will continue to make its decisions in a predictable, data-driven and transparent framework.

The summary of the Monetary Policy Committee Meeting will be released within five working days.