Summary of the Monetary Policy Committee Meeting

28 December 2023, No: 2023-55

Meeting Date: 21 December 2023

Global Economy

1. Global inflation has been decreasing recently, but it remains above the long-term averages and central bank targets. Compared to the previous Monetary Policy Committee (MPC) meeting period, consumer inflation decreased from 3.36% to 2.67% in advanced economies, while it increased from 6.08% to 6.16% in emerging economies due to the rise in Russia[1]. Accordingly, inflation continues to hover above the average target rate of 2% in advanced economies and 3.5% in emerging economies. Average annual inflation expectations for the last quarter of 2023 for advanced and emerging economies are 3.2% and 6.4%, respectively. On the other hand, compared to the previous MPC meeting period, core inflation declined from 3.97% to 3.76% in advanced economies and from 6.50% to 6.48% in emerging economies. Average annual inflation expectations for the last quarter of 2023 are 3.2% in the USA and 2.9% in the euro area, while core inflation expectations are 3.5% and 3.9%, respectively.

2. Despite widespread decline in commodity prices recently, geopolitical risks, financial conditions and supply-side factors cause oil prices to remain volatile. Brent crude oil prices per barrel have fluctuated in the USD 73-83 range since the previous MPC meeting while the Title Transfer Facility (TTF) price, which serves as a benchmark for European natural gas prices, has decreased. The current level of the Commodity Price Index is 25.6% above the average of the previous ten years. The index fell 29.0% from its peak level last year. Similarly, the Agricultural Commodity Price Index, which has declined 15.9% from its peak level last year, is 10.1% above the average of the previous ten years. Its level continues to have an impact on inflation due to the high share of food items in consumer basket.

3. High levels of core inflation and inflation expectations imply that global inflation will continue to remain above the targets of central banks for some time. Nevertheless, in their communications, central banks of advanced economies, particularly the Federal Reserve (Fed), highlighted the decline in core inflation and lowered their medium-term inflation forecasts. As a result, expectations that rate cuts may start earlier in 2024 have strengthened, while projections for the likely course of policy rates have been revised downwards. The central banks of 12 advanced countries held a total of 172 meetings in the last 22 months, and policy rates were increased in 107 of these meetings[2]. During the same period, 15 emerging countries' central banks held a total of 254 meetings, and policy rates were

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[1] Advanced Economies: The USA, Czechia, Denmark, the Euro Area, South Korea, the United Kingdom, Sweden, Japan, Canada, Norway.
Emerging Economies: Brazil, China, Indonesia, the Philippines, South Africa, India, Colombia, Hungary, Mexico, Peru, Poland, Romania, Russia, Chile, Thailand, Türkiye.

[2] Australia and New Zealand, which are not included in the inflation country set as their data are at quarterly frequency, are included in the policy rate analysis. Türkiye, which is included in the inflation set, is excluded from the emerging economies set in the policy rate analysis.

increased in 107 of these meetings. As a result of the monetary policies implemented, global financial conditions have become significantly tighter, the frequency of policy rate decisions has decreased and central banks of many advanced and emerging economies have reached the end of monetary tightening process. The Bank of Russia continued to increase policy rates as the uptrend in inflation continued. Meanwhile, central banks of Brazil, Peru, Chile and Hungary continued with policy rate cuts on the back of the decline in consumer inflation, while the Central Bank of Colombia cut its policy rate for the first time in a long time. Given the levels of inflation and the central banks' policy communications, it is expected that policy rates in these economies will continue to be adjusted in line with decreasing inflation, however, the tightness of monetary policy is expected to maintained so as to ensure the disinflationary trend.

4. Despite the flat global growth outlook, labor markets continue to be tight. The global growth index, which is weighted with the export shares of Türkiye's foreign trade partners, declined slightly compared to the previous MPC meeting. The index projects a growth level of 1.6% in 2023, which is approximately 0.3 percentage points higher than its lowest level in January. However, considering the 3.5% growth of the index in 2022, a notable slowdown in the global growth outlook, which affects Türkiye's foreign demand, is observed on an annual basis. On the other hand, the Global Purchasing Managers' Index (PMI) data posted a limited rise in November. In November, the global manufacturing industry PMI increased 0.5 points month-on-month to 49.3, while the global services PMI increased 0.2 points to 50.6. Thus, in November, the global composite PMI index increased 0.4 points over the previous month and reached 50.4. The rise in the global PMI data was driven by both advanced and emerging economies. Nevertheless, a comparison between the average values of global PMI data for the October-November period and averages of previous quarters reveals that PMI indices have declined compared to the first half of the year. The PMI data for the services sector, which was the major driving force of global economic activity particularly in the first half of the year, significantly declined in the October-November period both in the advanced economies group and the emerging economies group. The composite PMI indicator for the Euoro Area, one of the Türkiye's major trading partner, decreased 0.6 points month-on-month to 47 in December and continued to hover below the threshold value. In the Euro Area, compared to the previous month, the manufacturing PMI remained unchanged in December, while services PMI decreased 0.7 points and these indicators were recorded at 44.2 and 48.1, respectively. On a quarterly basis, the Euro Area composite PMI declined 0.5 points quarter-on-quarter to 47 in the final quarter of the year. This indicates that the slowdown in economic activity in the Euro Area in the third quarter continues in the last quarter of the year. In China, the composite PMI rose 1.6 points to 51.6 in November, driven by both manufacturing and services sectors. Meanwhile, the October-November average of the Chinese composite PMI declined 0.7 points quarter-on-quarter to 50.8. Against this background, the slowdown in global economic activity in the third quarter is expected to continue in the last quarter and the global economy is projected to display a growth outlook similar to the third quarter.

5. In the August-October period (31 July-3 November 2023), due to the expectation that central banks of advanced economies will maintain their tight monetary policy stance for a longer period, the fluctuations in the global risk appetite, and the uncertainty regarding the Chinese economy, there was a total outflow of USD 54.6 billion from equity markets and USD 5.4 billion from bond markets of emerging economies. In the following period, the US inflation decreased in two consecutive months in October and November to 3.1%, and the Fed's communication at its December meeting led to a significant recovery in the global risk appetite. As a result, in the five weeks between the 6th of November and the 8th of

December, USD 15.9 billion flowed into equity markets and USD 3.6 billion into bond markets.

6. The recent stabilization of the decline in the core inflation trend in advanced economies and the ongoing easing of supply-side factors, combined with the weak course of commodity prices, have led to an improvement in the global inflation outlook. Geopolitical risks, the level of monetary tightness and the timing of interest rate cuts by central banks of advanced economies will determine the course of the global economy in the upcoming period.

Inflation Developments

7. Consumer prices rose 3.28% in November, and annual inflation increased 0.62 percentage points to 62.0%. Headline inflation edged up in November and remains in line with the outlook presented in the most recent Inflation Report. As the limit for the free use of natural gas was exceeded (first 25 cubic metres), the impact of the natural gas item on the monthly consumer inflation rose to 1.01 percentage points, which is consistent with projections. When the effect of natural gas is excluded, the rate of increase in consumer prices declined further. While exchange rates follow a steady course, global energy prices continue to recede from the readings at the end of September. However, the existing level of domestic demand, stickiness in services inflation, and geopolitical risks keep inflation pressures alive.

8. Contributions of subgroups to annual inflation rose from 1.74 percentage points to 3.13 percentage points in the energy group (up by 1.39 percentage points); from 2.59 percentage points to 2.90 percentage points in the total of alcohol, tobacco and gold groups (up by 0.31 percentage points); from 23.4 percentage points to 23.5 percentage points in the services group (up by 0.16 percentage points); but decreased from 17.8 percentage points to 17.0 percentage points in the food and non-alcoholic beverages group (down by 0.84 percentage points) and from 15.8 percentage points to 15.4 percentage points in the core goods group (down by 0.40 percentage points).

9. Prices of the food and non-alcoholic beverages group rose 2.78% in November, while annual inflation declined 4.83 percentage points to 67.2% in this group. Seasonally adjusted data show that prices increased mildly in fruits and a decline in vegetables. Price increases remained strong in the food group excluding fresh fruits and vegetables. In November, price hikes were noteworthy in pulses, rice and white meat within the other unprocessed food group. In this period, monthly price increases grew larger in the processed food group, with prices of milk and dairy products, processed meat products, fats and oils and canned vegetables coming to the fore.

10. Energy prices increased 9.98% in November, and annual energy inflation increased 9.58 percentage points to 21.2%. In line with the higher consumption of natural gas, 25 cubic meters of which is offered free of charge, prices included in the basket rose further, raising energy prices. Accordingly, the natural gas item pushed monthly headline inflation up 1.01 percentage points in November. The contribution of natural gas to monthly inflation is projected to weaken in December. Following the developments in crude oil prices, fuel prices fell 1.06%. In tandem with global energy prices, the increase in solid fuel prices lost pace and stood at 1.95%, while bottled gas prices remained almost unchanged. In November, the rise in municipal water prices was 2.90%, significantly down from the previous month.

11. Prices in the services group were up 2.76% in November, and the group's annual inflation increased 1.06 percentage points to 89.7%. Annual inflation declined in the restaurants-hotels subgroup, but increased in others, with rents in the lead. When the rent subgroup is excluded, annual inflation proves almost unchanged. In the rents subgroup, the monthly increase decelerated compared to October with 5.97%, while the subgroup's annual inflation

went up 5.14 percentage points to 105.8%. Fuelled by ongoing increases in mobile phone call as well as internet fees, communication services posted a monthly price increase of 5.20%, bringing annual inflation to 60.6%. In the restaurants-hotels subgroup, the monthly price increase in catering services lost momentum, while the decline in accommodation prices continued. In the other services subgroup, prices rose moderately by 1.73%, indicating an ongoing slowdown in this group. Parallel to the fall in fuel prices, prices in transport services were relatively stable.

12. Annual core goods inflation dropped 0.81 percentage points to 52.2%. Across subgroups, price increases remained limited as they did in October, while they decelerated in clothing and footwear contrary to seasonal trends. Annual inflation receded in durable goods, but increased in other subgroups. Prices in durable goods (excluding gold) edged up by 0.66%. Electrical and non-electrical home appliances saw falling prices, while automobiles and furniture recorded mild price increases. In the clothing and footwear group, prices dropped 0.38%, while annual inflation went up 1.62 percentage points to 39.7%. Prices in other core goods rose 2.66% in line with the last two months, and annual inflation crept up by 0.72 percentage points to 50.1%.

13. The decline in the underlying trend of monthly inflation continues[3]. Seasonally adjusted monthly increases slowed in November in the B, and, more notably, in the C index. This outlook is also confirmed by the declining figures in the diffusion index, Median and SATRIM indicators. The three-month average increases in the seasonally adjusted B and C indices, which peaked at 8.79% and 8.65% respectively in February 2022, stood at 3.49% and 3.61% in November 2023. In November, the seasonally adjusted rates of increase in the B and C indices were measured at 2.56% and 2.57%, respectively. The consumer inflation diffusion index declined further in November, and its upward standard deviation from the historical average fell from 1.4 in October to 0.5.

14. Leading indicators suggest that the underlying trend of inflation has maintained the November levels. According to preliminary data, price increases are strong in the energy group, despite some month-on-month deceleration, which is driven by the natural gas item. It is predicted that due to seasonal increase in consumption, the effect of the natural gas use above the freely-provided 25 cubic meters on measured prices pushed November inflation up by 1.01 percentage points, while it is estimated to decline to around 0.33 percentage points in December. Price increases recorded a month-on-month slowdown in the processed food subgroup, while unprocessed food price increases strengthened due to developments in vegetables and red meat. Monthly services inflation is likely to remain stickier as anticipated, while the core goods subgroup is projected to register some increase due to durable goods.

15. Monthly inflation will rise in January due to wage adjustments, particularly the minimum wage, and items with a high tendency for time-dependent price setting. This rise in monthly inflation, which is also reflected in the Inflation Report forecasts, is expected to slow down in February and beyond, and hover close to the decline in the underlying trend of inflation in the first half of the year.

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[3] To identify the underlying trend of inflation, we use approaches based on "methods of exclusion", such as the B and C indices, as well as "statistical methods" such as Median and SATRIM inflation. Seasonally adjusted monthly changes and moving average changes of these core indicators are closely monitored to determine developments in the underlying trend. The underlying trend can be assessed from a broader perspective, including product groups that are considered to be related to the main drivers of inflation, the distribution and diffusion of price increases across products, and the degree of co-movement of the indicators monitored.

Demand and Production

16. Recent indicators suggest that domestic demand continues to moderate as monetary tightening is reflected in financial conditions. Accordingly, while the trend of imports weakens, the foreign trade balance displays a relatively favorable outlook. On the other hand, discounts and campaigns, in particular, have been the factors curbing the decline in demand.

17. In October, adjusted for seasonal and calendar effects, the retail sales volume index increased by 2% on a monthly basis. The annual growth of the retail sales volume index fell 0.5 percentage points to 13.7%, while in quarterly terms, retail sales remained flat following the 0.6% rise in the third quarter. In November, when campaigns intensified, the upward trend in card expenditures continued. Seasonally adjusted leading indicators, on the other hand, hint at a new deceleration in the rate of increase of card expenditures in December. In seasonally adjusted terms, manufacturing firms' registered orders from the domestic market decreased in the fourth quarter. An analysis of the broad economic categories reveals that the decline was more pronounced in the durable goods group. Interviews with firms also imply that discount campaigns and the demand response in the said period curbed the loss of momentum in domestic sales. Although the rebalancing that started with the monetary tightening process continues, it is evaluated that demand conditions may not weaken due to wage hikes in January. Accordingly, the current level of demand continues to be considered as a risk factor on inflation.

18. In October, the seasonally and calendar adjusted industrial production index decreased 0.4% month-on-month, while, adjusted for calendar effects, it increased 1.1% on an annual basis. On a quarterly basis, industrial production fell 0.7% as of October compared to the third quarter. Excluding the sectors with high monthly volatility, industrial production posted a quarterly decrease of 0.2%. In November, the seasonally adjusted capacity utilization rate increased 0.7 percentage points month-on-month to 77.5%.

19. As of October, seasonally adjusted employment stood at 31.8 million. In this period, seasonally adjusted employment increased 0.6% quarter-on-quarter, while the labor force participation rate decreased 0.1 percentage points. In October, unemployment rate decreased 0.5 percentage points to 8.5% from 9.0% in September. High-frequency data indicate that demand remains robust in the labor market.

20. In October, in line with the ongoing downward trend in the foreign trade deficit, the annualized current account deficit fell USD 1 billion from the previous month's level to USD 50.7 billion. This fall was driven by the rise in exports, decline in the gold trade deficit, and the improvement in the energy balance due to the ongoing annual decline in energy prices, whereas foreign trade deficit excluding gold and energy recorded an increase. Provisional foreign trade data for November indicate that seasonally adjusted exports and imports posted a monthly decrease, with imports registering a more pronounced decline originating from goods groups other than investment goods. The three-month average trend, considered along with the high frequency data for December, implies a rise in exports and a flat course in imports as well as an annual decline. Although imports of durable consumption goods have been stimulated by campaigns, their seasonally adjusted growth is estimated to have continued to slow down in the last quarter of the year. Preliminary data for the last quarter point to an increase in gold exports and a continued course of gold imports above historical averages, while the improvement in gold balance continues in annualized terms.

21. As of October, the annual services balance surplus decreased USD 0.3 billion month-on-month to USD 51.7 billion. On the other hand, tourism revenues, which have been strong throughout the year, continue to contribute positively to the current account balance. Travel revenues increased by USD 5.8 billion in the first ten months of the year compared to the

same period of the previous year, and reached USD 42.2 billion. Similarly, the number of foreign visitors increased 12.6% year-on-year to 44.1 million in the first ten months of the year.

Cost Conditions

22. The upward trend in energy commodity prices that started in July, prior to which had been declining since the second half of 2022, ended in October and prices started to fall again in the following period. Non-energy commodity prices, which remained almost flat in recent months, also decreased in October before returning to their relatively flat course in November. In the first three weeks of December, the decline in prices in the energy group continued, while non-energy commodity prices also registered some decrease.

23. In November, domestic producer prices rose 2.81%, while annual inflation increased 2.86 percentage points to 42.3%. As cumulative cost increases were transmitted, industrial electricity and natural gas tariffs as well as electricity producers' natural gas tariffs were raised by 20% in early October, the impact of which was observed on the electricity, gas, steam, and air conditioning supply group in November. Thus, according to main industrial groupings, the most significant increase was observed in the energy group. In this period, annual inflation realized as -5.9 in energy group remaining in the negative territory, while it remained relatively flat course at high rates in other main groups.

24. The Global Supply Chain Pressure Index converged to its historical trend in November, while international transportation costs remained low in this period. Global commodity prices continued to decline in November. Exchange rates have maintained their recent mild course.

25. Fuel prices can have a significant impact on consumer prices, particularly on transport services, through both production inputs and transportation costs. In fact, the significant increase in fuel prices in the third quarter driven by exchange rates, crude oil prices and tax arrangements have rapidly passed through to transport services prices within the same quarter. In tandem with the decline in fuel prices that started in October, transport services prices remained flat in November. On the back of the ongoing fall in fuel prices, leading indicators suggest that the favorable course of transport services prices will continue in December. However, the volatility in oil prices triggered by geopolitical developments remains as a potential risk factor for inflation.

26. Against this background, it is evaluated that the intense cost-push pressures in the third quarter have been broadly passed through to prices.

Stickiness of Services Inflation

27. The services sector has posted strong price increases since July. Monthly price increases in the services sector, which displays significant inertia, are higher compared to 2022. Annual inflation in the C index, which includes the core goods and services groups, is around 70%, while annual inflation in the services sector is around 90%. Additionally, the diffusion index for the services sector is hovering approximately 45% above its historical average, indicating that the increases continue to spread across the sector.

28. Rising house prices, backward-indexation behavior, and imbalances between supply and demand in the real estate market are pushing rent increases upwards and adversely affecting consumer inflation. On the other hand, while the rise in house prices is losing pace, rents monitored through micro data from the Retail Payment System (RPS) as well as the data for big cities monitored through online platforms indicate that the rate of increase in rents has slowed down in the recent period. In fact, consistent with this overall picture, the price increase in rents subgroup has registered a slowdown in November.

29. In the restaurants and hotels subgroup that is significantly affected by food, wage and tourism developments, monthly price increases display a persistent outlook. In the recent period, catering services prices continue to be the main driver of the restaurants and hotels subgroup through food prices. While the monthly price increase in catering services in the restaurants-hotels subgroup lost momentum in November, the fall in accommodation prices continued. Thus, the subgroup's inflation displayed a milder outlook compared to the previous month.

30. Certain services items, particularly rents, education, health, recreation and culture, exhibit pricing behavior indexed to past consumer inflation, prompting inflationary effects to persist over a long period of time. Communication services, which are subject to price rigidities arising from contracts, have a similar effect, and price increases in this subgroup remain strong. Based on the recent realizations of consumer inflation, there is a risk that inflation will remain high in certain services items for an extended period.

Inflation Expectations

31. The Committee assesses that inflation expectations and pricing behavior started to show signs of improvement. The consumer inflation diffusion index, one of the indicators followed in order to monitor developments in pricing behavior, continued to decline in November as the share of items with decreasing prices rose. In the durable goods group, whose inflation can rapidly slow in periods of weakened effects of shocks, the diffusion index receded to its historical average.

32. The fall in inflation expectations continues. According to the December results of the Survey of Market Participants, the current year-end inflation expectation decreased 1.84 percentage points from 67.2% to 65.4%, the 12-month-ahead inflation expectation decreased 2.71 percentage points from 43.9% to 41.2%, the 24-month-ahead inflation expectation decreased 0.27 percentage points from 25.1% to 24.8%. Meanwhile, the five-year-ahead inflation expectation was revised upwards 0.34 percentage points from 12.3% to 12.6%. In addition to the level of inflation expectations, their distribution has also registered a partial improvement. The distribution of 12-month-ahead inflation expectations points to a growing consensus around the central tendency compared to the previous month.

Monetary and Financial Conditions

33. With the effect of monetary and quantitative tightening and simplification decisions, the current lending rates are assessed to be in line with the targeted level of financial tightness. In the period between the previous MPC meeting when the policy rate was raised 5 percentage points and the latest MPC meeting, commercial and consumer loan rates displayed a flat outlook with a change of 0.2 and 0.92 percentage points, respectively. During the same period, deposit rates increased by an average of 4.04 points across all maturities and by 6.1 points for up to 3-month deposits strengthening monetary transmission.

34. Housing loan rates, which have remained flat since the previous MPC meeting period, stood at 42%. Vehicle loan rates dropped by 750 basis points to 32.8% driven by the end-of-year sales campaigns, whereas general purpose loan rates (excluding overdraft accounts) mildly increased to 61.7% as of 15 December 2023. On the other hand, Turkish lira commercial loan rates remained stable at 51.8%.

35. The normalization in loan growth and composition continued. As of 15 December 2023, the retail loan balance increased 141.7% in credit cards, 85.0% in vehicle loans, 41.1% in general-purpose loans, and 21.8% in housing loans compared to end-2022, amounting to an increase of 67.4% in total. The average 4-week growth rate of retail loans, which continued to lose momentum due to monetary tightening and other steps taken, stood at 3.33%, with a slight

increase since the previous MPC meeting period due to end-of-year spending. The average 4-week growth rates of vehicle and general-purpose loans materialized at 2.29% and 2.10%, respectively. Personal credit cards recorded a higher rate of 6.26%. On the other hand, Turkish lira-denominated commercial loans and FX commercial loans adjusted for exchange rates recorded an average 4-week growth rate of 2.18% and 0.02%, respectively, in the same period.

36. To maintain long-term price stability, technological transformation that will improve the current account balance, strategic investments that will contribute to the continuity of supply, and exports continue to be supported. Programs undertaken for this purpose have been enhanced to include financing costs as well as access to credit, while overseeing the macro-financial stability. The Advance Loans Against Investment Commitment (ALAIC) program, which intends to utilize long-term resources with favorable financing costs in areas that will support macro-financial stability, is implemented in a framework that highlights the contribution to price stability, technological value, and the strategic nature of investments. Moreover, while overall credit growth has normalized, the commercial loan composition is expected to be shaped in a way that will contribute to the current account balance on the back of the regulatory changes in rediscount credits for export and FX-earning services.

37. As of June, the measures taken to ensure the sound functioning of the banking system within the scope of the simplification process have primarily restored the flow of Turkish lira commercial loans. Turkish lira commercial loans, which increased 0.34% across the sector in June, grew 2.38% in July, 2.26% in August, 2.52 % in September, 2.39% in October, and 2.20% in November. Meanwhile, Turkish lira deposit rates stood at 24.9% in the week ending 18 August, at 33.5% in the week ending 15 September, at 37.9% in the week ending 13 October, at 40.8% in the week ending 17 November, and at 45.8% in the week ending 15 December. In parallel, Turkish lira deposits have started increasing while FX-protected deposits have declined. Owing to the policy rate hike and the recent steps taken as part of the simplification of the macroprudential framework, it is evaluated that there was a growth in the demand for Turkish lira denominated assets. Simultaneously, loan and deposit rates also rose in tandem, resulting in the strengthening of the monetary transmission mechanism.

38. Due also to the policy rate decision taken in December, the Committee evaluates that along with monetary tightening, the regulations to increase the share of Turkish lira deposits will continue to strengthen the transmission mechanism and to improve the funding composition of the banking system.

39. The notable improvement in external financing conditions, continued increase in foreign exchange reserves, positive impact of demand rebalancing on current account balance, and the accelerated increase in domestic and foreign demand for Turkish lira denominated assets contribute significantly to exchange rate stability and the effectiveness of monetary policy.

40. With the recently-signed agreements, foreign direct investments that will focus on improving technology investments and production capacity will support external financing in the upcoming period.

41. Türkiye's five-year CDS premium, which peaked this year with 703 basis points on 22 May 2023 amid domestic uncertainties, decreased further to 284 basis points as of 20 December 2023, down from 340 basis points in the previous MPC meeting period. While the 1-month forward exchange rate volatility of the Turkish lira decreased by 0.1 point in the current MPC period, the 12-month forward exchange rate volatility increased by 1 point and reached 7.8 percent and 23.8 percent, respectively, as of December 20, 2023. Falling figures in the risk premium and exchange rate volatilities were accompanied by net portfolio inflows totaling

USD 4.8 billion since June, USD 2 billion of which went to the government domestic debt securities (GDDS) market and USD 2.8 billion to the equity market.

42. International reserves of the Central Bank of the Republic of Türkiye (CBRT) maintain the strong upward trend they assumed in June. Having declined from USD 128.8 billion at the end of 2022 to USD 98.5 billion at the end of May, gross international reserves of the CBRT rose to USD 142.5 billion as of 15 December 2023. The upward trend in reserves has gained momentum recently and a significant increase of USD 8.1 billion has been recorded since the previous MPC meeting.

Monetary Policy

43. The Committee has decided to raise the policy rate (the one-week repo auction rate) from 40% to 42.5. Taking into account the cumulative and lagged effects of monetary tightening, the Committee will continue to determine its policy decisions 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% inflation target in the medium term.

44. Assessing that monetary tightness is significantly close to the level required to establish the disinflation course, the Committee reduced the pace of monetary tightening. The Committee anticipates to complete the tightening cycle as soon as possible. The monetary tightness will be maintained as long as needed to ensure sustained price stability.

45. To increase the functionality of market mechanism and strengthen macro financial stability, the Committee continues to simplify and improve the existing micro- and macroprudential framework. Impact analyses of the CBRT's regulations are conducted for all components of the framework by assessing their impact on inflation, interest rates, exchange rates, reserves, expectations, securities, and financial stability with a holistic approach. With the decisions taken accordingly, it is assessed that significant progress has been made in the simplification process.

46. Recently, there has been excess liquidity in the market driven by the components affecting liquidity, particularly the ongoing increase in international reserves. In addition to policy rate decisions, the Committee will continue to implement quantitative tightening by extending the sterilization tools at its disposal in order to support the monetary tightening process. While the policy rate, the main policy instrument, affect monetary and financial conditions and expectations, these decisions aim to stabilize excess Turkish lira liquidity and increase the effectiveness of monetary policy.

47. 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.

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