Summary of the Monetary Policy Committee Meeting

October 24, 2024, No: 2024-57

Meeting Date: October 17, 2024

Global Economy

1. The limited improvement in the global growth outlook continued in the second quarter of the year while the normalization trend seen in the labor market supply-demand balance was maintained. The global growth index, which is weighted by the export shares of Türkiye's foreign trade partners, is forecasted to grow by 2.0% in 2024. That is slightly higher than the 1.8% growth recorded in 2023, and global economic activity remains weak. The services sector continued to follow a favorable course while the manufacturing industry remained weak. The US economic growth trend continued to diverge positively from other advanced economies. China's stimulus measures, as well as geopolitical developments, led to widespread increases in commodity prices. The cautious pace of interest rate cuts to ensure a permanent decline in inflation and geopolitical risks are seen as prominent risk factors for the course of global economic activity.
2. Global inflation continues to decline and rigidity in the services inflation weakens. Meanwhile, it is noteworthy that services inflation has not slowed down to the same extent across advanced economies. As advanced economies continue to cut interest rates, a growing number of central banks of emerging economies (EMEs) join the rate-cutting process. Central banks of both advanced and emerging economies are expected to adopt a cautious approach in rate cuts in a way to maintain the favorable trend in the inflation outlook. On the other hand, risk appetite and portfolio flows to EMEs' equity markets have fluctuated due to global uncertainties.

Monetary and Financial Conditions

3. With the overnight interest rates materializing around the policy rate during the last MPC meeting period and the effect of the amendments in reserve requirement regulations, Turkish lira deposit rates decreased by 31 basis points since the week ending September 20 and stood at 55.9% as of October 11. In the same period, Turkish lira commercial loan rates (excluding overdraft accounts and credit cards) increased by 85 basis points to 55.8%. On the retail loans side, general-purpose loan rates (excluding overdraft accounts) increased by 24 basis points to 71.7% while housing loan rates decreased by 159 basis points to 41.6%. Vehicle loan rates, which follow a fluctuating course in general, were 43.3% as of October 11.
4. The average four-week growth rate of retail loans has decreased since September 20 from 3.3% to 2.%. In the same period, Turkish lira commercial loans stood at an average four-week growth rate of 2.3%. The average four-week growth rate of FX commercial loans adjusted for exchange rates remained below the FX commercial loan growth limits and declined to 1.5%.
5. To support macrofinancial stability and the monetary transmission mechanism, certain macroprudential measures have been taken since the last MPC meeting period. Accordingly, as announced in the press release dated September 21, 2024, reserve requirement ratios for

Turkish lira (TRY) deposits have been raised from 12% to 15% for demand and notice deposits, as well as time deposits with maturities up to (and including) 3 months and from 8% to 10% for deposits with longer maturities. The reserve requirement ratio for FX-denominated deposits/participation funds maintained in Turkish lira have been reduced from 8% to 5%. In addition, the remuneration of required reserves that should be maintained for TRY deposits will no longer be conditional on the transition-to-TRY rate. The maximum commission rate of 5% applied based on the level of transition-to-TRY rate has been raised to 8%.

6. With the amendment introduced on September 27, 2024, to limit the borrowing behavior and contribute to the moderation in domestic demand, the maximum contractual interest rates for personal credit cards (PCC) were differentiated based on the amount of term debt as of November 1, 2024. Accordingly, regarding credit card transactions in TRY (excluding cash withdrawal or usage transactions), the maximum contractual interest rates will be 3.50% for PCCs with term debt less than TRY 25,000; 4.25% for those with term debt between TRY 25,000 and 150,000 and 4.75% for those with term debt exceeding TRY 150,000 as well as corporate credit cards irrespective of their term debt amount. Additionally, the maximum interest rate applicable to the restructuring of PCCs has been limited to the reference rate.

7. The daily limit of TRY 3 billion for rediscount credits used to finance exports was raised to TRY 4 billion upon the decision of October 8, 2024. On the same date, the condition of being a net exporter was replaced by the implementation of an exporter score, to be effective as of January 13, 2025. With this new data-based practice, exporter scores of firms will be calculated by considering variables such as the diversity of exported products and export destinations, the technological level of exported products and scale of firms, in addition to their net exporter status.

8. The gross international reserves of the Central Bank of the Republic of Türkiye (CBRT) increased by USD 0.99 billion since September 20 to USD 157.39 billion as of October 11, 2024. Türkiye's five-year credit default swap (CDS) premium stood at 267 basis points on October 16, 2024, posting a slight increase since September 18. The one-month and 12-month implied exchange rate volatility of the Turkish lira rose to 11.83% and 22.60%, respectively, as of October 16. Since the previous MPC meeting week, net portfolio inflows have totaled USD 1.10 billion, comprising USD 1.22 billion of inflows to the government domestic debt securities (GDDS) market, and USD 0.11 billion of outflows from equity markets.

Demand and Production

9. In August, the retail and trade sales volume indices increased on a monthly and quarterly basis. The services production index, which provides insight into both the production of services and their demand, decreased slightly in August, as it did in July, and also continued to decline on a quarterly basis. In September, card spending posted a monthly increase while the data for the first week of October showed signs of normalization. The course of automobile and white good sales indicates a gradual slowdown in domestic demand in the third quarter. Seasonally adjusted imports of consumption goods also increased in the August-September period, but declined quarter-on-quarter. Besides, survey data for manufacturing firms indicate a quarterly decline in domestic market orders in the third quarter. In sum, indicators for the third quarter suggest that domestic demand continues to slow down, approaching disinflationary levels. Information on consumption expenditures from interviews with firms indicate a relatively flat outlook in domestic demand in the last quarter of the year. Against this background, consumption indicators as a whole suggest that the slowdown in domestic demand continues at a moderate pace.

10. In August, the industrial production index decreased by 1.6% month-on-month when adjusted for seasonal and calendar effects, and by 5.3% year-on-year when adjusted for calendar effects. The decline in the vehicle sector production due to long factory holidays during the summer also had a moderate downward effect on industrial production. On a quarterly basis, industrial production fell by 1.5%. Excluding the typically volatile sectors, the underlying trend of industrial production is assessed to have remained weak in August. Meanwhile, the manufacturing industry capacity utilization rate posted a quarterly decline in the third quarter.
11. As of August, seasonally adjusted employment rose by 0.3% on a quarterly basis and stood at 32.8 million people. In this period, the labor force participation rate went up slightly while the unemployment rate edged down by 0.1 percentage points to 8.6%. Survey indicators suggest a decline in manufacturing firms' future employment expectations.
12. In August, the current account balance ran a monthly surplus of USD 4.3 billion, whereas the annualized current account deficit decreased to USD 11.3 billion due also to backward revisions. Based on the "International Trade in Services Statistics, 2023" bulletin published by TURKSTAT, the backward revision in the services balance item had a downward impact of approximately USD 4 billion on the annualized current account deficit. Excluding this impact, the improvement in the cumulative current account balance in August was driven by the fall in the foreign trade deficit excluding gold and energy as well as in gold trade deficit. On the other hand, the energy trade deficit remained relatively flat. During this period, the annualized services balance surplus remained robust.
13. In September, provisional foreign trade data pointed to a slight decline in exports and a mild growth in imports, in seasonally adjusted terms. Accordingly, on an annualized basis, the low level of current account deficit is projected to be largely maintained in September amid the ongoing strong contribution of travel revenues. Gold imports amounted to USD 1.2 billion in September, but dropped to USD 16.8 billion in annualized terms. Having decreased in the May-July period, seasonally adjusted imports of consumption goods increased in August and September. When the provisional foreign trade data for September is considered along with the high frequency data for October, the three-month average trends point to a sustained strength in exports, and an increase in imports. These trends imply a flat course in consumption goods imports in October.
14. Regarding the financing of the current account deficit, the banking sector's annualized long-term debt rollover ratio stood at around 145% in August. In the non-bank corporate sector, this ratio was around 105%. Accordingly, for the non-bank corporate sectors, external financing opportunities appear to have improved over the previous month.

Inflation Developments and Expectations

15. In September, consumer prices were up by 2.97% while annual inflation fell by 2.59 percentage points to 49.38%. Annual inflation in the B and C indices declined by 2.64 and 2.46 percentage points to 48.23% and 49.10%, respectively. In September, the contribution to annual inflation dropped across all main groups. Adjusted for seasonal effects, monthly consumer inflation remained flat over the previous month, standing at 2.8%.
16. In September, monthly price increases in the services group maintained their strong course. The prominent items with price hikes in the services group were rents as well as transport, accommodation, and education services affected by the opening of schools. The price increase in the core goods group accelerated somewhat, also reflecting exchange rate developments. This acceleration was mainly driven by white goods and automobile items as well as by the clothing and footwear subgroup which saw stronger price hikes due to the

launch of the new season. On the other hand, core goods inflation remained on a mild track compared to other groups. Having declined in the previous month, food prices posted a relatively large increase in this period. Inflation in the unprocessed food group rose, led by vegetable prices. Meanwhile, the processed food group displayed a relatively favorable outlook. Energy prices also followed a mild course in this period.

17. In September, the underlying trend of inflation posted a slight increase. In seasonally adjusted terms, monthly increases were flat in the B index and slightly higher in the C index compared to the previous month. The seasonally adjusted three-month average increases in the B and C indices somewhat strengthened to 2.7% and 2.8%, respectively. In this period, among the components of the B index, price increases lost pace in processed food and remained flat in services while rising in core goods. Median, SATRIM, and other indicators of underlying trend also increased somewhat. When all indicators pertinent to underlying inflation in September are jointly analyzed, the three-month average increase grew slightly stronger to 2.5% from 2.4% in the previous month.

18. Services inflation still exhibits strong backward-indexation. This prevalent price-setting behavior in the services sector leads to significant inertia and causes the impact of shocks on inflation to extend over a long time. Over the last three months as of September, the seasonally adjusted average price increase was 1.5% in core goods and higher at 4.1% in services.

19. In September, services inflation was shaped by opening of schools in addition to rents. Price increases in transport services was mainly affected by school bus fares. Meanwhile, prices in education services increased due to the carry-over effect of university tuition fees into September, which were raised in August. Monthly inflation in restaurants-hotels picked up slightly month-on-month, owing mostly to the rise in student residence fees in the accommodation group following the start of university term. Seasonally adjusted monthly rent inflation decelerated month-on-month, yet remained on a high track. On the other hand, prices of catering services rose moderately in also September following August. In this period, monthly inflation in communication remained relatively flat at a low level.

20. Leading indicators tracked through micro data from the Retail Payment System (RPS) imply that rent increases will fall due also to the decline in renewed contracts in October. On the other hand, rates of rent increases in new and renewed contracts obtained from RPS micro data, and those monitored through residential property valuation reports are below the current annual inflation in the rent item of the consumer price index (CPI) and are decreasing. The expected fall in contract renewal rates in the last quarter of the year compared to the third quarter coupled with the lower rate of rent increases used as a reference in contracts indicate that monthly rent inflation will decelerate in the period ahead.

21. Domestic producer prices rose by 1.37% in September, and annual inflation dropped by 2.66 percentage points to 33.09% due also to the high base effect. Accross the main industrial groupings, price increases were moderate. Prices of capital goods rose by 1.89% in this period while intermediate goods and energy restrained the headline rate. Pressures led by domestic producer prices weakened notably in the last three-month period, which favorably affected goods inflation.

22. Having started in late April, the fall in international commodity prices continued in September. Across subgroups, the energy group was the main driver of this fall due to the decline in crude oil prices while other groups registered increases. After a long while, the FAO food prices index recorded a monthly uptick in September, which spread across subgroups. In the first half of October, prices in the energy group trended upwards. Brent crude oil prices, which were USD 74.3 on average in September, reached approximately USD 77.4 in

the first half of October due also to the heightened geopolitical risks. Being led by both agricultural prices and industrial metals, non-energy commodity prices also went up in the same period.

23. The Global Supply Chain Pressure Index hovered around its historical average in September. The downtrend in container indices for the globe and China, which was seen after July, continued in September. Meanwhile, dry cargo transport indices fluctuated, yet have been on a flat course on average in the second half of the year. The basket exchange rate, which recorded a mild increase in August, edged up in September, leading exchange rate-driven pressures to weaken. The seasonally adjusted PMI data point to a decline in input prices for the manufacturing industry in September.

24. According to the results of the Survey of Market Participants in October, inflation expectations increased for the year ends of 2024 and 2025, but declined for the medium term. The 12-month-ahead inflation expectation remained relatively flat at 27.4% while the 24-month-ahead inflation expectation was down by 0.3 percentage points to 18.1%. On the other hand, inflation expectations for the end of current year and the next year were revised upwards by 1.0 and 0.3 percentage points to 44.1% and 25.6%, respectively. Meanwhile, the five-year-ahead inflation expectation was measured at 11.3%, remaining almost unchanged. According to the expectations of the real sector, the 12-month-ahead inflation expectations of firms, which was 53.8% in August, declined by 2.7% to 51.1%in September. Similarly, in the same period, the 12-month-ahead inflation expectations of households fell by 1.5 percentage points to 71.6%. The Committee noted that inflation expectations and pricing behavior continue to pose risks to the disinflation process.

25. Leading indicators suggest that October inflation will mostly be affected by food prices. In this period, unprocessed food prices are likely to remain on an upward course due to fresh fruits and vegetables. Fresh fruits and vegetables, which are relatively beyond the control of monetary policy, witnessed price increases due to the seasonal transition, as well. In this period, seasonally adjusted core goods inflation followed a moderate course. In this group, clothing prices rose amid seasonal effects. Meanwhile, durable consumption goods recorded a weak uptick, yet their composition displayed a diverse outlook.

26. While core goods inflation remains low, the improvement in services inflation is expected to occur in the last quarter. However, the uncertainty regarding the pace of improvement in inflation has increased in light of incoming data.

Monetary Policy

27. The Committee decided to keep the policy rate unchanged, but reiterated that it remains highly attentive to inflation risks.

28. The decisiveness regarding tight monetary stance will bring down the underlying trend of monthly inflation through moderation in domestic demand, real appreciation in the Turkish lira, and improvement in inflation expectations. Consequently, the disinflation process will gain strength. The tight monetary stance will be maintained until a significant and sustained decline in the underlying trend of monthly inflation is observed, and inflation expectations converge to the projected forecast range. Monetary policy tools will be used effectively in case a significant and persistent deterioration in inflation is foreseen.

29. In case of unanticipated developments in credit and deposit markets, monetary transmission mechanism will be supported via additional macroprudential measures. Liquidity conditions are assessed with respect to prospective developments and closely monitored. Sterilization tools will continue to be implemented effectively.

30. Taking into account the lagged effects of monetary tightening, the Committee will make its policy decisions so as to create the 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.
31. Indicators of inflation and the underlying trend of inflation will be closely monitored, and the Committee will decisively use all the tools at its disposal in line with its main objective of price stability.
32. The Committee will make its decisions in a predictable, data-driven, and transparent framework.