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## **SUMMARY OF THE MONETARY POLICY COMMITTEE MEETING**

**Meeting Date: 28 January 2014**

### ***Recent Developments***

1. Recently, uncertainties in the domestic and foreign markets have increased substantially. As a consequence, Turkish lira depreciated significantly and risk indicators displayed a marked increase. Especially, since the last Monetary Policy Committee (Committee) meeting held on January 21<sup>st</sup>, heightened risk perceptions towards emerging economies have accelerated the depreciation of some emerging market currencies, leading to a deterioration in their inflation outlook.
2. Exchange rate movements in Turkey driven by these developments have increased the risk of inflation hovering significantly above the target for an extended period. Besides rapid exchange rate depreciation, recent tax adjustments and adverse developments in food inflation were other factors contributing to the deterioration in the inflation outlook.

### ***Monetary Policy and Risks***

3. The Central Bank will not tolerate any deterioration in the price stability. To this end, the Committee assessed that, in order to prevent a deterioration in the inflation expectation and the overall pricing behavior, it would be appropriate to deliver a strong and front-loaded monetary tightening.
4. The Committee stated that tightening monetary policy under current circumstances will not only contribute to price stability, but also support the macroeconomic stability through a reduction in the exchange rate uncertainty and risk perceptions. Moreover, it was indicated that increasing the predictability of monetary policy would be helpful amid weakening capital inflows.
5. Accordingly, in order to preserve price stability, the Committee decided to implement a strong monetary tightening and to simplify the operational framework. In this respect, (i) one-week repo rate is increased from 4.5

percent to 10 percent; (ii) the Central Bank liquidity will be provided primarily from one-week repo rate instead of the marginal funding rate in the forthcoming period.

6. The Committee judges that, current policy stance will be enough to anchor inflation expectations. Under this stance, inflation is expected to reach the 5 percent target by mid-2015. Although January inflation may exceed the market expectations, tight policy stance should prevent any deterioration in medium term inflation expectations. In subsequent months, underlying inflation is expected to trend downside. The Committee indicated that tight monetary policy stance will be sustained until there is a significant improvement in the inflation outlook. If deemed necessary, liquidity policy may be tightened further in order to invert the slope of the yield curve.