

Press Release on Interest Rates

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Participating Committee Members

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The Monetary Policy Committee (the Committee) has decided to raise the policy rate (the one-week repo auction rate) from 40 percent to 42.5 percent.

Headline inflation edged up in November and remains in line with the outlook presented in the most recent Inflation Report. The existing level of domestic demand, stickiness in services inflation, and geopolitical risks keep inflation pressures alive. On the other hand, recent indicators suggest that domestic demand continues to moderate as monetary tightening is reflected in financial conditions. The Committee also assesses that inflation expectations and pricing behavior started to show signs of improvement. 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. In light of these developments, the decline in the underlying trend of monthly inflation continues.

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.

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. While lending rates are assessed to be in line with the targeted level of financial tightness, 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. 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.

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 percent inflation target in the medium term.

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.