

Decision of the Monetary Policy Committee

October 24, 2019, No: 2019-42

Participating Committee Members

Murat Uysal (Governor), Murat Çetinkaya, Ömer Duman, Uğur Namık Küçük, Oğuzhan Özbaş, Emrah Şener, Abdullah Yavaş.

The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 16.50 percent to 14 percent.

Recently obtained data indicate that moderate recovery in economic activity continues. Leading indicators point to continuing improvement in the sectoral diffusion of economic activity. However, investment demand remains weak. While industrial production has been highly volatile due to working day effects associated with official holidays in recent months, its underlying trend has maintained a moderate pace of growth. While favorable effects of improved competitiveness prevail, weakening global economic outlook tempers external demand. Looking forward, net exports are expected to contribute to economic growth, although to a lesser extent, and the gradual recovery is likely to continue with the help of the disinflation trend and improvement in financial conditions. Current account balance, which has recently recorded significant improvement due to the composition of growth, is expected to maintain a moderate course.

Recently, advanced economy central banks have been pursuing more expansionary policies as weakening global economic activity and downside risks to inflation became more evident. While these developments support the demand for emerging market assets and the risk appetite, rising protectionism and uncertainty regarding global economic policies are closely monitored in terms of their impact on both capital flows and international trade.

Inflation outlook continued to improve. In addition to the stable course of the Turkish lira, improvement in inflation expectations and mild domestic demand conditions supported the disinflation in core indicators. In September, with the contribution of strong base effects, consumer inflation displayed a significant fall particularly in core goods and food inflation. Domestic demand conditions and the level of monetary tightness continue to support disinflation. Underlying trend indicators, supply side factors, and import prices lead to an improvement in the inflation outlook. In light of these developments, recent forecast revisions suggest that inflation is likely to materialize notably below the projections of the July Inflation Report by the end of the year. Accordingly, considering all the factors affecting inflation outlook, the Committee decided to reduce the policy rate by 250 basis points. At this point, the current monetary policy stance, to a large part, is considered to be consistent with the projected disinflation path.

The Committee assesses that maintaining a sustained disinflation process is the key for achieving lower sovereign risk, lower long-term interest rates, and stronger economic recovery. Keeping the disinflation process in track with the targeted path requires the continuation of a cautious monetary stance. In this respect, the extent of the monetary tightness will be determined by considering the indicators of the underlying inflation trend to ensure the continuation of the disinflation process. The Central Bank will continue to use all available instruments in pursuit of the price stability and financial stability objectives.

It should be emphasized that any new data or information may lead the Committee to revise its stance.

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