

# Press Release on Interest Rates

26 October 2023

No: 2023-39

## Participating Committee Members

Hafize Gaye Erkan (Governor), Osman Cevdet Akçay, Elif Haykır Hobikođlu, Yaşar Fatih Karahan, Hatice Karahan.

The Monetary Policy Committee (the Committee) has decided to raise the policy rate (the one-week repo auction rate) from 30 percent to 35 percent.

The Committee decided to continue the monetary tightening process in order to establish the disinflation course as soon as possible, to anchor inflation expectations, and to control the deterioration in pricing behavior.

In the third quarter, inflation readings were above expectations. The pass-through from tax regulations and cost pressures stemming from wages and exchange rates, which have been recently impactful, has been largely completed. The strong course of domestic demand, the stickiness of services inflation, and the deterioration in inflation expectations continue to put upward pressure on inflation. In this framework, while the year-end inflation is projected to be close to the upper bound of the forecast range provided in the Inflation Report (Report), it is also evaluated that the underlying trend in monthly inflation is on course to decline. On the other hand, geopolitical developments pose risks to the inflation outlook due to oil prices. Through the monetary tightening process, the Committee is determined to establish the disinflation course in 2024 in line with the Report.

Foreign direct investment, stable course of external financing conditions, continued increase in foreign exchange reserves, the positive impact of rebalancing in demand on current account balance, and the increase in domestic and foreign demand for Turkish lira denominated assets will significantly contribute to price stability.

The policy rate will be determined 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. Monetary tightening will be further strengthened as much as needed in a timely and gradual manner until a significant improvement in inflation outlook is achieved.

To increase the functionality of market mechanisms and strengthen macro financial stability, the Committee continues to simplify and improve the existing micro- and macroprudential framework. Guided by impact analyses, the simplification process is advancing gradually. In this context, monetary transmission mechanism will be further strengthened by taking additional steps to increase the share of Turkish lira deposits. In addition to the increase in the policy rate, the Committee will continue to make decisions on quantitative tightening and selective credit tightening to support the monetary policy stance.

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.