

# 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 reduce the policy rate (the one-week repo auction rate) from 45 percent to 42.5 percent.

Following the increase in January, the underlying trend of inflation decreased in February. Over this period, core goods inflation remained relatively low, while services inflation slowed down after the idiosyncratic increase in January. Although domestic demand was above projections in the fourth quarter, it remained at disinflationary levels. Leading indicators suggest that domestic demand remains disinflationary in the first quarter. The effects of monetary policy stance on credit and deposit markets as well as on domestic demand are closely monitored. While inflation expectations and pricing behavior tend to improve, they continue to pose risks to the disinflation process.

The decisiveness regarding tight monetary stance is strengthening the disinflation process through moderation in domestic demand, real appreciation in Turkish lira, and improvement in inflation expectations. Going forward, increased coordination of fiscal policy will also contribute significantly to this process. The tight monetary stance will be maintained until price stability is achieved via a sustained decline in inflation. Accordingly, the policy rate will be determined in a way to ensure the tightness required by the projected disinflation path taking into account realized and expected inflation, and the underlying trend. The Committee will adjust the policy rate prudently on a meeting-by-meeting basis with a focus on the inflation outlook. Monetary policy tools will be used effectively in case a significant and persistent deterioration in inflation is foreseen.

Considering the recent developments in credit growth, additional measures were taken to preserve macro financial stability and to support the tight monetary policy stance. In case of unanticipated developments in credit and deposit markets, monetary transmission mechanism will be supported via additional macroprudential measures. Liquidity conditions will continue to be closely monitored and sterilization tools will continue to be used effectively.

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 percent inflation target in the medium term. Accordingly, all monetary policy tools will be used decisively. The Committee will 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.