

20120103 Central Bank of the Republic of Turkey: Monetary policy to be implemented during exceptional days

Source: Central Bank of the Republic of Turkey

2 January 2012

End-year inflation, which will be announced tomorrow, is likely to materialize slightly above 10 percent. In order to contain second round effects under current circumstances, it is important that disinflation starts sooner than market expectations. In this context, Central Bank of the Republic of Turkey has delivered an additional monetary tightening since December 29, 2011.

Additional monetary tightening is mainly implemented via open market operations. Liquidity funded to the market at the policy rate may be reduced temporarily below the lower bound announced for normal days.

Unsterilized (effective) foreign exchange sales and interventions may also be used as a complementary instrument when necessary. The aim here is to prevent inflation expectations to be adversely affected from exchange rate movements detached from fundamentals.

Additional monetary tightening is intended to be strong, effective and temporary. The duration of the implementation may vary depending on the speed at which main factors affecting inflation outlook turn favorable.

Central Bank of the Republic of Turkey will continue to monitor developments regarding inflation outlook and take the necessary measures in line with the main objective of price stability.

NovaRes Team