This commentary will analyze whether in its bid to increase aggregate demand, output, and low unemployment, Turkey's decision to lower interest rate is the most favorable move to fight off the spiraling inflation affecting the country.

To begin with, it is essential to underscore that any nation's monetary policies should ideally serve as stabilizers for its economy. If the economy is slowing down due to recession and unemployment, it is expected that the central bank will choose to increase the money supply with an aim at increasing aggregate demand and thereby employ resources that are sitting idle. The central bank does so by either buying securities, lowering the reserve ratio, or lowering the discount rate. The objective of such expansionary monetary policy is to make bank loans less costly and easily accessible to businesses and the masses, through this manner, increase aggregate demand, production, and employment. Alternatively, if the economy is experiencing an inflationary spiral due to excessive spending, the central bank must attempt to decrease aggregate demand by contracting the money supply. This is accomplished by way of selling securities, increasing the reserve ratio, or raising the discount rate. These contractionary monetary policy actions are meant to reduce the money supply with a purpose of reducing spending and control inflation.

While central banks around the world (e.g., the U.S. Federal Reserve, the Bank of England, and the Central Bank of the Republic of Turkey) have some similarities and characteristic differences, their main goal is to oversee the monetary system and policy of a nation by regulating its money supply, often by setting interest rates. Interest rates are a vital medium on which monetary policy influences the macroeconomy since interest rates impact the economy by influencing bond and stock interest rates, business and consumer spending, and ultimately macroeconomic outcomes like the unemployment rate, GDP growth rate, and inflation rate.

Turkey's current economic crisis is likely caused by a combination of: the Turkish economy's disproportionate current trade deficit (with large amounts of private foreign-currency denominated debt) and dependency on foreign direct investment, President Recep Tayyip Erdogan's increasing autocratic leadership and his fundamental monetary policy nonlinearities linked to the level of interest rates, and worldwide price pressures owing to supply-chain holdups and scarcities of raw materials. The currency – Turkish Lira – has lost more than 40 percent of its value against the U.S. dollar, reaching its lowest currency value of 13.47 to the dollar, on November 30, 2021.[1] For comparison, the Turkish Lira was trading at roughly 5.6 to the dollar in 2019 and 3.5 to the dollar in mid-2017.

According to Erdogan, higher interest rates will result in higher prices because companies have no choice but to pass increased costs on to their consumers. His strong and long-held belief is that higher interest rates cause inflation, rather than bring it down. Erdogan has unswervingly declined to raise interest rates to control Turkey's 3 (s)-r 0 Td c r .n6 0.0027.39 0 Td ( )Tj 0.32 0 Tddoub

Figure 1

The swift downward slide of the economy has shepherded in an uncommon intrusion by purpose of reducing spending and controlling inflation. Nonetheless, instead of raising interest rates as inflation continues spiraling, Erdogan has decided to buck accepted monetary policy and lower interest rates instead.

This move is counterproductive, because it is accomplishing the opposite of what Erdogan is attempting to achieve. His first aim is to make money less costly so as to inspire buyers to borrow more, and in so doing, pur[illegible]