

## **Abstract**

In September 2021, motivated by the belief that the cause of high inflation rates is high interest rates, CBRT adopted a policy of fighting inflation by decreasing the policy rate. This policy shift was followed by even higher inflation rates, depreciation of the Turkish Lira, deterioration of current account balance, increase in country risk and dollarization. This paper discusses the consequences of this deviation from the New Keynesian monetary policy framework and undertakes a counterfactual analysis for inflation and property prices using synthetic control method. The counterfactual analysis suggests that the reduction in the policy rate increased average CPI and property price inflation respectively by 50 and 140 percentage points. In the broader context, the counterfactual analysis confirms that a lax monetary policy is not the way to fight inflation.