

## Central Bank of Turkey surprises with a 100bp rate cut

The Central Bank of Turkey (CBT) has today cut its policy rate by 100bp to 13% – a move all the more surprising given inflation is near 80%. The CBT cited slowing leading indicators of growth as its reason to ease. The prioritisation of growth over disinflation remains very much in place, as does investor concern over the path of policy



### First rate move since December

Unlike virtually all other central banks around the world, Turkish authorities have addressed inflationary pressures through a complex set of measures this year – largely targeting credit growth. The policy rate – the one-week repo rate – had been left untouched at 14% until today.

Why now? In its statement, the CBT cited the slowing of leading indicators and what they meant for growth in the third quarter. It emphasised the need to maintain supportive financial conditions for industrial production and employment growth. An insight into today's rate cut could have been found in some of the recent volume momentum in the banking sector that has remained elevated despite efforts to curb credit growth, though it has retreated a bit in recent weeks.

In its statement, the CBT also signalled further macroprudential policy moves with the objective of

supporting the effectiveness of the monetary transmission mechanism. This means we may well see additional measures to maintain selective credit growth policies, support FX reserve growth, increase demand for TRY assets, and divert FX demand in the period ahead.

A further key reason for today's rate cut may have been the recent recovery in FX reserves as tourism continues to help, along with Russian FX transfers, boost liquid FX reserves. Prospects of capital flow from Saudi Arabia and other gulf countries could also have been providing confidence to Turkish authorities in delivering a cut – a move that has seen the Turkish lira come under further pressure.

Still, there is no major underlying improvement in the FX reserve position and pressure will likely remain on reserves as a result of a large FX financing gap.

## Looking ahead

Today's move will do little to address Turkey's inflationary challenges. The CBT sees inflation peaking in September-October. Given that the current policy setting does not prioritise disinflation, inflation will likely remain elevated despite a recent moderation in international food and energy prices.

But the risks of unconventional policy are clear. And local financial markets could once again come under pressure once the tourism season passes. So far today, the rate cut has seen the Turkish 5-year sovereign Credit Default Swaps widen by 35bp to 781bp, reversing the narrowing in sovereign risk premia seen over recent weeks.

## Authors

### Muhammet Mercan

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial

Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.