

Turkey takes steps to add liquidity as lira sinks

Turkey plans to provide \$2.2 billion of FX liquidity via a change to its reserve option coefficients



Source: iStock

The Central Bank of Turkey has returned to [low-level measures](#) to curb volatility in the Turkish lira. This follows rising tensions between the US and Turkey over the detainment of Pastor Brunson and recent US sanctions. The Bank ended its tightening cycle at the last MPC meeting despite a sharp deterioration in the inflation outlook, ongoing uptrend in forward-looking expectations and external imbalances, leaving the currency vulnerable to shifts in global risk appetite.

Previous CBT actions show that it has responded to TRY weakening via FX liquidity measures rather than via the rate tool. It prefers to use: (1) adjustments in reserve requirement ratios; (2) changes in coefficients of the reserve option mechanism; (3) an increase in the size of swaps; (4) extension of the non-deliverable forward (NDF) programme; and (5) allowing the repayment of rediscount credits available to exporters to be made in TRY at below-market exchange rates temporarily.

Accordingly, the bank today announced adjustments in reserve option coefficients (ROCs), lowering the upper limit for the FX maintenance facility to 40% from 45%. The bank expects around \$2.2 billion of liquidity to be provided to the financial system to “support price stability and

financial stability”.

This step suggests that the CBT is initially hoping to provide FX liquidity to stabilise the Turkish lira, rather than convene an emergency MPC meeting or to shift funding from the one-week repo rate to the overnight lending rate or late liquidity window rate, which it ceased using after the policy simplification announced at the end of May. A monetary policy response would be helpful but not enough to stabilise markets given that the concerns are tied to geopolitical relations.

Author

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

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>.