

## Turkey: Another strong rate action

Turkey's central bank (CBT) hiked the one-week policy rate by 125bp to 17.75%. The increase was more than markets expected and another strong step to support the currency and safeguard price stability



Source: istock

# 125bp

Higher than expected

Hike by the CBT

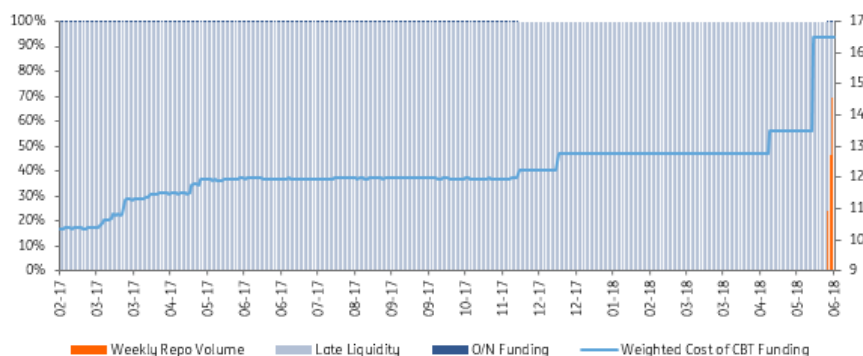
(in the one-week repo rate)

At the June rate-setting meeting, the CBT hiked its one-week repo rate- the bank's main rate after it simplified policy at the end of May- by 125bp to 17.75%.

- Under the new operational framework, the CBT's rate communication will be based solely on the one-week repo rate, with other rates tied to this benchmark. As a result, the bank only announced the repo rate in its June statement. The move lifted the overnight lending rate and late liquidity window lending rate to 19.25% and 20.75%, respectively.

- Ahead of the meeting, markets were not pricing in a hike. According to a Reuters survey, expectations were quite diverse, with almost half of the participants expecting no hike and the rest predicting an increase in the range of 25 to 100bp. The CBT tightened more than expected in an effort to cement its improving credibility and show independence.
- In a technical note after the bank simplified policy, the CBT promised to keep market overnight rates close to the policy rate, signalling that it would likely fund the banking system mainly from one-week repo auctions, rather than use the late liquidity window. With the shift from the late liquidity window to one-week repo funding, we will be watching to see if the CBT opts for liquidity tightening in the coming period. However, we do not expect such a move given the guidance provided by the bank and today's strong rate action.
- In the statement, the CBT once again acknowledged the deterioration in the inflation outlook, stating that "*cost factors have been the main driver of the recent upsurge in inflation*". It also said that "*price increases have shown a generalised pattern across sub-sectors*". There was no meaningful change in the interest rate announcement regarding its policy guidance. The bank has maintained its tightening bias, reiterating that "*inflation expectations, pricing behaviour and other factors affecting inflation will be closely monitored and, if needed, further monetary tightening will be delivered*".

## Funding Comp. & Cost of Funding (%)



Source: CBT, ING Bank

The CBT has continued its strategy- in place since early April- to safeguard price stability with a larger-than-expected hike. In the near term, markets will be looking to the election outcome, the new government's economic management and the post-election economic policy mix. But for now, the CBT has made an additional strong step to support the currency, following its emergency hike and policy simplification at the end of May. This move has already had an impact on the Turkish lira with USD/TRY dropping to 4.46s from close to 4.60.

### Author

**Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto: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 [www.ing.com](http://www.ing.com).