Flexibility on Turkish central bank discount credits

The Central Bank of Turkey's move related to the rediscount credit repayment scheme in Turkish lira could reduce corporate demand for FX in May-July

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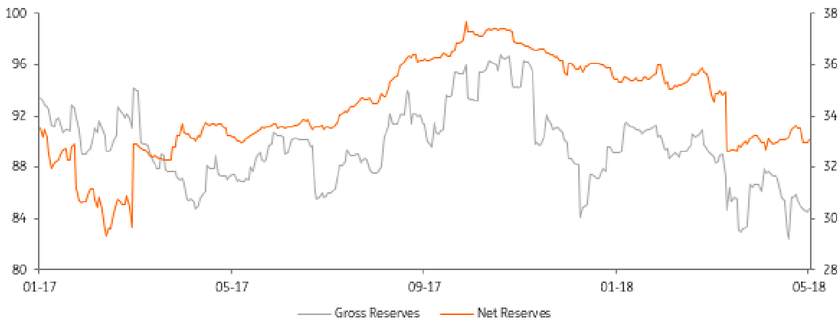
As part of efforts to support the Turkish lira (TRY) by cutting corporate demand for FX, the Central Bank of Turkey (CBT) announced today that it would temporarily allow the repayment of rediscount credits available to exporters to be made in TRY at below-market exchange rates. Rediscount credits that are usually made in TRY and repaid in FX (to enable companies that have FX earnings to sell goods and services on deferred payment terms) has been actively used by the CBT as a tool to bolster its FX reserves since 2008.

The CBT's recently announced scheme is only for those rediscount credits lent before 25 May 2018 with maturity by 31 July. The CBT now allows exporters to make repayments in TRY for the eligible rediscount credits at exchange rates of 4.20 for USD/TRY, 4.90 for EUR/TRY and 5.60 for GBP/TRY against the current market rates of 3.74 for USD, 5.54 for EUR and 6.32 for GBP.

Following the sharp 300bp adjustment in the late liquidity window rate this week, the CBT continued its measures to stabilise the currency. To this end, it increased the maximum total amount of forward FX sale positions in TRY-settled forward FX sale auctions from USD6.15bn to USD8bn, the third since early April. The upper limit is determined as USD10bn until end-2018. It has also provided flexibility on the rediscount credits. A monetary policy meeting on 7 June will be key in the CBT's efforts to shore up the TRY.

CBT FX Reserves (USD bn)



Source: CBT, ING Bank

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