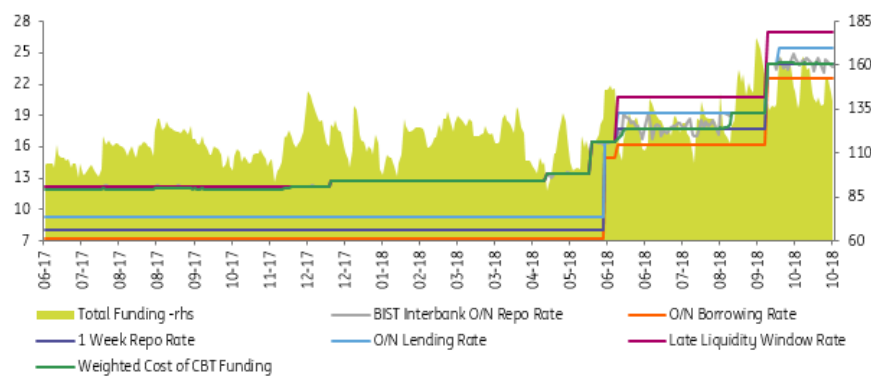


No surprises from the central bank of Turkey

Turkey's central bank kept the policy rate unchanged at 24% while pointing out the upside risks to the inflation outlook, ongoing strength in external demand and the slowdown in economic activity



Key central bank of Turkey rates (%)



Source: CBT, ING Bank

Policy rate flat at 24%

At today's meeting, the central bank of Turkey kept the policy rate unchanged at 24%, in line with the Bloomberg median consensus and our call. This is following the sharp adjustment last month and with the recent lira strength on the back of Pastor Brunson's release and subsequent signals from the US on lifting some sanctions.

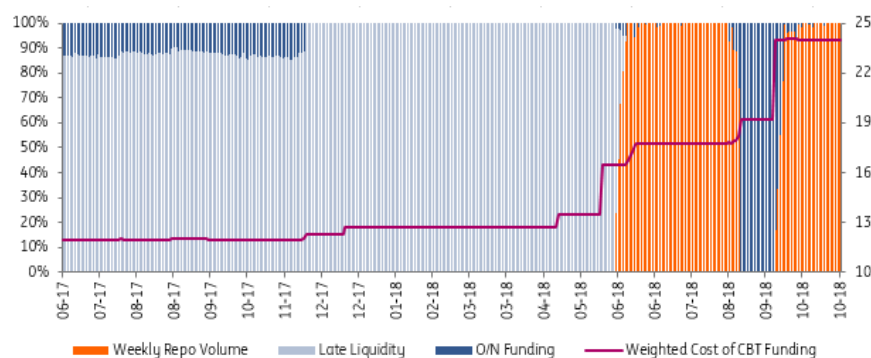
Markets first reacted negatively, and the lira moved to above 5.70 against the dollar, though later recovered towards 5.62s.

[As we wrote before the meeting](#), the current recovery process of the lira could reduce some repercussions that we have witnessed since the beginning of this year including the declining FX pass through on inflation, given the high correlation between the lira's performance and core inflation. Secondly, the improving financial stability with a better operating environment for Turkish corporates that have a substantial short FX position.

That would be a relief factor for the central bank along with improvements in the geopolitical picture that will likely support the capital flow outlook, despite continuing fundamental macroeconomic challenges, such as inflationary pressures.

Funding composition and cost of funding

(5d-MA, %)



Source: CBT, ING Bank

Minor changes in the statement

In the statement, the central bank's growth assessment was broadly unchanged, pointing to the "slowdown in economic activity continues", with an addition in the October statement that it is "partly due to tighter financial conditions".

But, most importantly, the Bank remained vocal about price stability risks by, once again, reiterating price increases showing "generalised patterns across sub-sectors, reflecting the movements in exchange rates". They also acknowledged upside risks in the inflation outlook despite "weaker domestic demand conditions will partially mitigate the deterioration".

Accordingly, it maintained a hawkish bias, keeping the main policy guidance in the statement unchanged. So, while highlighting the determination to tighten further, if needed, the bank will continue to monitor the lagged impact of recent monetary policy decisions and the contribution of fiscal policy to rebalancing process in addition to inflation expectations, pricing behaviour and

other factors affecting inflation.

Despite the deteriorating inflation outlook with a surge in forward-looking expectations and fall in the ex-post real rate to the negative territory again, the central bank remained quiet.

This is probably because of rapid improvement in financial stability risks, the ongoing impact of recent financial volatility on the growth outlook, and expectations about the impact of the 10% price cut campaign on the inflation trend.

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>.