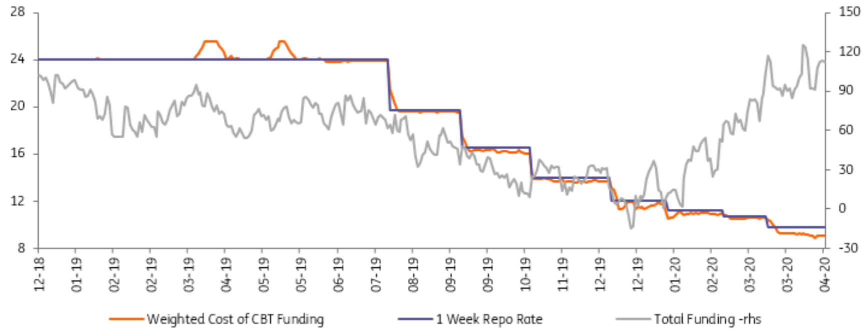
Turkey: The CBT cuts for the eighth consecutive time

The CBT has extended its cutting cycle - against a backdrop of demand weakness, falling price pressures and the accommodative policy stance of global central banks.

The Turkish Central Bank in Ankara

In April MPC, the CBT cut the policy rate (1-week repo rate) by another 100bp to 8.75%, comparing market consensus at 9.25% (and our call at 9%) likely on the back of 1) objective to provide additional support to ongoing policy mix that targets to mitigate downside risks to the growth, 2) negative output gap weighing on inflation despite likely impact of TRY weakness and 3) shift in global policies amid Covid-19 concerns with aggressive and immediate stimulus.

CBT Funding (in % and TRY bn)



Source: CBT, ING

On the inflation outlook, the CBT sees the impact of inflation expectations, demand conditions and producer prices on “mild trend” of core indicators. Regarding the rate decision, the CBT, once again, cited the growing downside risks to inflation thanks to 1) continued plunge in commodity prices, especially oil as we have already seen significant downward adjustment in local fuel prices in recent weeks despite currency depreciation 2) weakening demand conditions given the hit from the coronavirus outbreak, though adverse impact of declining production and sales on variable costs needs to be closely monitored.

In the statement, the CBT kept key guidance sentences unchanged. The Bank reiterated that “a cautious monetary stance” is required so as to keep “the disinflation process in track with the targeted path” and that it would continue to determine monetary policy by considering “the indicators of the underlying inflation trend to ensure the continuation of the disinflation process”.

In the remainder of the statement, the CBT also shared views about 1) current global outlook 2) importance of financial stability with healthy functioning of financial markets, the credit channel and firms’ cash flows so as to contain effect of the pandemic on the economy 3) external rebalancing and likely moderate course in the period ahead with lower imports driven plunge in oil prices and sluggish domestic demand.

Overall, the CBT extended policy easing by another more than expected cut while it does not signal that this is the final move of the cutting cycle. In the period ahead, currency developments that can risk price and financial stability will be closely watched.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Disclaimer