

Turkey's central bank: Still in wait-and-see mode

The central bank of Turkey kept the policy rate unchanged at 24% and maintained its hawkish bias given the fragility of the currency and ongoing inflationary pressures. We expect the Bank to maintain its tight stance until there is a visible improvement in the inflation outlook with potential modest cuts likely in the second quarter



Source: Flickr

24%

1-week repo rate

(Unchanged)

As expected

At the March meeting, the central bank of Turkey kept the one-week repo rate unchanged at 24%, in line with the consensus, despite the downtrend in annual inflation in February showing the impact of relatively benign food prices, after a spike in January and seasonality in clothing, despite higher energy inflation.

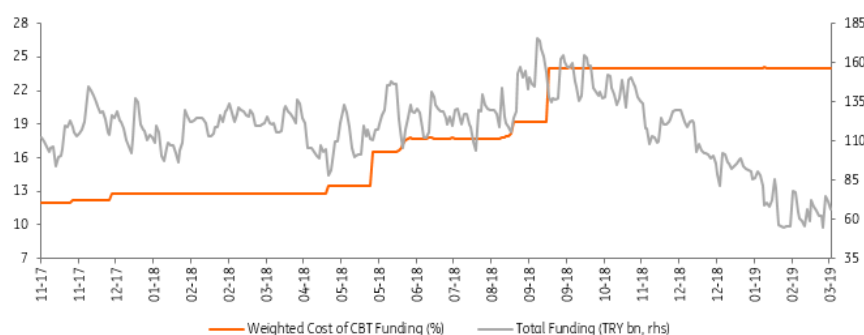
The decision created a minor impact on the exchange rate with the USD/TRY dropping to 5.36 and then recovering rapidly to above 5.40.

So far, the central bank has shown no signs of complacency and has recently come up with strong wording, promising to maintain a policy that reduces inflation to single digits in the least possible time.

This stance shows the Bank’s sensitivity to ongoing inflation challenges with continuing upside risks, due to deteriorating expectations and a fragile outlook for the lira, given geopolitical issues and the upcoming elections.

Accordingly, the Bank stayed on hold again this month, while keeping its hawkish bias with a promise to deliver policy tightening if required, until the disinflation trend becomes more pronounced.

Central bank of Turkey funding



Source: CBT, ING Bank

The accompanying statement includes minor changes compared to the previous month.

One addition to the statement is related to the external demand as the bank mentions “relative” strength while in January the sentence was “external demand maintains its strength”.

For economic activity, the central bank revised its assessment to “economic activity displays a slow pace” from “slowdown in economic activity continues”. These changes don't signify a meaningful shift in the Bank’s assessment since January. On the inflation side, the Bank acknowledges the improvement with the support of “import prices” and “domestic demand conditions”, though remains vocal about prevailing risks on price stability.

The central bank remains sensitive to price and financial stability risks and kept its hawkish bias given the fragility of the currency, continued dependence on external financing despite recent improvement in external imbalances and ongoing inflationary risks, as indicated by elevated core and services inflation.

The Bank will maintain a tight stance until there is visible improvement in the inflation outlook to gradually restore credibility with potential modest cuts likely in the second quarter.

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>.