

Turkish Central Bank keeps rates on hold

In line with its forward guidance that the current policy rate is adequate to support the country's recovery from the earthquakes, the Central Bank of Turkey (CBT) left the policy rate flat at 8.5%



The Turkish Central Bank has kept its policy rate on hold

The CBT remained on hold, as expected, keeping the policy rate at 8.5% in the last rate-setting meeting ahead of the May 14 double elections. Accordingly, the market reaction to the decision was muted as the USD/TRY parity has been flat. The CBT reiterated the implementation of its “Liratisation” strategy and its conclusion that the current stance was adequate in terms of supporting the necessary recovery after the earthquakes and maintaining price and financial stability.

The CBT’s assessment note this month was almost a carbon copy of the note shared after the March meeting.

1. The bank once again mentioned “conditions threatening financial stability”. This environment, according to the CBT, led to “coordinated steps” by global central banks, and hence, financial markets are also shifting their expectations related to the end of tightening cycles in the near term.
2. The CBT also kept the forward guidance unchanged, concluding that “the current monetary policy is adequate to support the necessary recovery in the aftermath of the earthquake” while pointing out that “the effects of the earthquake in the first half of 2023 will be closely

monitored”.

3. Finally, while the bank restated the need to keep financial conditions supportive in response to the earthquake, it also repeated its emphasis on alternative policy instruments and alignment of all policy instruments with “Liratisation” targets.

The key challenge for the CBT currently is to maintain the stability of the exchange rate in the near term, ahead of the elections. Recently, it has asked banks to limit the number of dollar purchases they make in the interbank market to ease pressure on the Lira. Following the CBT move, banks began widening spreads between their bid and ask prices for foreign currencies, while volatility in the currency market has increased to some extent.

The latest indicators point to a need to rebalance the economy:

1. While the current account deficit remained on its expansionary path in February, the latest indicators hint at further widening in March with a continuing increase in the foreign trade deficit driven by gold trade and core imports. Total flows have also remained weak in the absence of strong unidentified inflows, leading to pressure on international reserves so far this year.
2. The extra fiscal burden of reconstruction costs and the CBT’s supportive stance will likely create further pressure on the already elevated headline inflation.
3. In the first quarter of this year, we expect major fiscal expansion will pull the budget deficit to 2.5% of GDP from 0.9% at the end of last year on the back of weakening tax collection performance and earthquake recovery-related expenditures. Given this backdrop, the consensus view sees a normalisation in the conduct of monetary policy in the period ahead.

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 www.ing.com.