

## Turkey's central bank on hold but an earlier rate cut can't be ruled out

The Central Bank of Turkey kept its policy rate flat this month, in line with the market consensus. However, revisions to policy guidance show the possibility of a rate cut earlier than perhaps previously expected



The new CBT Governor, addressing question marks about a major monetary policy reversal, has alleviated market concerns with his remarks in recent weeks, signalling policy continuity along with the importance of and dedication to price stability. The rate decision was not a surprise and in line with the consensus, leaving the policy rate unchanged at 19%.

The CBT made some changes in the MPC note compared with the March statement. Accordingly, the bank:

- Did not mention the possibility of additional tightening, if needed.
- Removed its commitment to determine its stance by taking into account the end-2021 forecast target and remaining tight *"for an extended period until strong indicators point to a permanent fall in inflation and price stability"*.

On the other hand, the CBT acknowledged:

- The continuation of the global recovery with the support of accommodative policies and progress in vaccinations, while highlighting its reflections on rising inflation expectations on international markets. However, the bank sees some moderation of the uptrend in commodity prices.
- Strength in economic activity attributable to both domestic and external factors with significant momentum in manufacturing despite the still struggling services sector because of the ongoing pandemic. The bank also reiterated ongoing consumer lending growth despite a tightening in financial conditions, while commercial lending remains on a moderate path.
- Upside risks to the inflation outlook driven by both demand and cost factors, the impact of the pandemic on certain sectors leading to supply constraints and high inflation expectations which deteriorated further with the events after the March MPC. However, the bank foresees a more pronounced impact of the current policy stance on credit and domestic demand.

While the elimination of a reference to the end-2021 interim target signals a revision to this year's inflation forecast in the upcoming inflation report released on 29 April, changes in the MPC statement regarding policy guidance show the possibility of a rate cut earlier than expected previously. However, challenging inflation numbers, fragile capital flows and the exchange rate outlook will likely keep the CBT cautious in its policy actions in the coming months.

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