Turkey's central bank on hold, as expected

The Central Bank of Turkey kept its policy rate unchanged at 14%, after ending its easing cycle in December. The bank also reiterated that it would monitor the impact of its recent policy decisions and reassess the policy framework

The Turkish Central Bank in Ankara

At its first rate-setting meeting of the new year, the CBT remained on hold, keeping the policy rate at 14%. This was in line with its latest guidance a month ago which signalled an ending in its easing cycle and plans to monitor the effects of the easing delivered since September. The bank seems to have adopted a wait-and-see attitude following the introduction of its FX deposit scheme, which is intended to increase household demand for savings in Turkish lira by reducing FX risk.

In its assessment note, the CBT's views on the global outlook were unchanged. It attributed the jump in inflation to currency weakness, supply-side factors and demand developments, as it did in the previous note. For the future course of inflation, the bank is quite optimistic as it sees the start of a disinflation process on the back of measures taken by policymakers and supportive base effects. In this regard, the inflation report on 27 January will be closely watched by market participants, while the accompanying meeting will likely provide further clues for the policy stance ahead. Given the previous forecast for this year was at 11.8%, we will likely see a revision towards the market consensus, which is at 29.8%, according to the latest market participants' survey.

For the growth outlook, the CBT sees continued strong economic activity as evidenced by recent capacity utilisation figures while external demand has remained supportive. The bank also reiterated its call for a current account surplus this year, though November foreign trade data and preliminary December figures point to a wider deficit, as imports strengthen despite weakness in the currency. In this respect, the CBT is keeping a close eye on commercial and consumer lending. However, the latest decision to inject capital to state banks and the possibility of introducing another credit guarantee fund facility will likely lead to an acceleration in lending, with likely adverse effects on external balances.

The forward guidance did show some changes. The bank reiterated that it would reassess the policy framework "to create a foundation for sustainable price stability," though it did not mention any time frame for the reassessment this time. In the previous note, the Bank signalled that this would be conducted in 1Q22. The CBT also added that its aim is to prioritise the Turkish lira in all the bank's policy tools. So during this review, the bank has signalled it will keep the policy rate unchanged though we will probably have further clarification on this guidance in the forthcoming inflation report.

All in all, given the latest hikes in electricity, gasoline and natural gas prices, inflation will likely remain under pressure in the near term and well above the latest reading until late 2022. We expect some moderation into year-end, also reflecting large base effects, though there is higher-than-usual forecast uncertainty. So the inflation outlook and recent decline in CBT reserves will not leave any room for further policy easing in the near term, in our view.

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