

## Turkey's central bank surprises with 150bp rate cut

The Central Bank of Turkey has cut interest rates by 150bp to 10.5% due to growth concerns and signalled that it will end its rate-cutting cycle next month at 9%



The Central Bank of Turkey

After two 100bp rate cuts in the last two months, the CBT surprised the markets by reducing the policy rate by 150bp (vs the market consensus at 100bp) to 10.5% citing growing downside risks to the growth outlook. In line with President Erdogan's earlier remarks, the bank also signalled another move next month, ending the cycle with a 9% policy rate (1-week repo rate).

The CBT's reasoning behind the extension of the easing cycle and accelerating pace of cuts in October was the need for supportive financial conditions so as to preserve the growth momentum in industrial production and the positive trend in employment. The CBT reiterated this month the importance of supportive financial conditions with an additional word, "critical", given recent signs of momentum loss in economic activity amid decreasing foreign demand, high uncertainty about the global growth outlook and escalating geopolitical risks. Accordingly, the CBT stated that it will closely monitor "pressures on the manufacturing industry due to foreign demand and their currently limited impact on domestic demand and supply capacity".

Indeed, we have seen signs of decelerating activity in the third quarter with a weak PMI,

deterioration in sentiment indicators & decline in electricity consumption. Further weakness should follow due to a worsening global backdrop, which will weigh on exports, and higher FX volatility. In this environment, the CBT seems to be prioritising growth despite an acceleration in September inflation, with further pressure in services inflation and large administrative price adjustments.

The bank's signal to cut rates again next month and end its easing cycle at that point is in line with President Erdogan's recent call to bring the policy rate into single digits by year-end. The policy mix has tilted to a more supportive stance lately given i) statements about another Credit Guarantee Fund package (reportedly at least TRY50bn) that could reverse the recent momentum loss in lending, though the timing has not been specified yet ii) more expansionary stance on the fiscal side in the medium term plan (MTP) when compared with the previous MTP, and accelerating expenditures in the latest budget data releases iii) the rate cutting cycle by the CBT. However, given tighter regulations targeting banks' asset side which selectively limit loan growth, cuts are not easing financial conditions as fast.

Further signs of a slowdown in economic activity, a recovery in FX reserves at the beginning of October (by US\$6.9bn to US\$114bn) and stability in the lira which has outperformed other peer currencies, are likely other factors for another rate cut this month. However, ongoing widening pressure on the current account and subdued capital flows imply the possibility of a further drawdown in reserves. Given that the current policy setting does not prioritise disinflation, inflation will likely remain elevated in the near term.

## Author

### Muhammet Mercan

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto: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>.