

24 November 2022

Snap

## Turkey's central bank to announce additional measures in December

With its latest rate cut, the Central Bank of Turkey has now ended its easing cycle and has issued new policy guidance signalling further macro-prudential measures in December to support the effectiveness of the monetary transmission mechanism



The Central Bank of Turkey

In line with its latest forward guidance provided last month and President Erdogan's call for a single-digit policy rate, the Central Bank of Turkey cut its key rate by 150bp to 9% at the November MPC meeting. The CBT has cut rates by 500bp since August, bringing the rate into single digits for the first time since September 2020, at a time when headline inflation exceeds 85% and hence real interest rates were already deeply negative. The CBT cited growing downside risks to the growth outlook, and the latest cut is expected to be the last in this cycle.

The economy started to slow in the third quarter, mainly due to a weakening in external demand, and leading indicators for the fourth quarter suggest the slowdown in activity is likely to continue. In line with this backdrop, the CBT said that pressure on the manufacturing industry, and the "currently limited impact on domestic demand and supply capacity" from this pressure, has become more pronounced.

In this environment, the bank prioritises growth despite broad-based inflationary pressures (all 12 of the main CPI categories contributed positively to the increase in inflation in October). Given this backdrop, in the November rate-setting statement, the CBT reiterated the need for supportive financial conditions so as to preserve the growth momentum in industrial production and the positive trend in employment

and added this month that this would be important “for the sustainability of structural gains in supply and investment capacity”.

So, despite high inflation and large external financing needs, the CBT seems to be determined to pursue accommodative measures, though it has also implemented a number of measures, including a selective credit policy and “liraisation” strategy, in an environment of deeply negative real rates. Given this backdrop, in the latest note released with the interest rate decision, the CBT came up with further policy guidance which signalled more macro-prudential measures to support the effectiveness of the monetary transmission mechanism in the “2023 Monetary and Exchange Rate” document that will be released in December.

There are expectations of some easing in the current banking sector regulations along with targeted credit stimulus measures in the pipeline such as Credit Guarantee Fund (CGF) loans. The ongoing expansionary stance on the fiscal side has also become more pronounced lately. We expect the CBT to keep its policy rate unchanged at 9% ahead of the elections. The CBT’s macro-prudential framework may be strengthened further in December, which would be key for the macro and financial outlook in the near term.

**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 NV 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 deemed authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. The nature and extent of consumer protections may differ from those for firms based in the UK. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. 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.