

## Turkey: No change in central bank's policy approach

The Central Bank of Turkey kept its policy rate flat at the May meeting and concluded that the current rate is adequate to support the recovery from February's earthquakes. It did not offer any signals about a policy change or provide renewed forward guidance



The Central Bank of Turkey in Istanbul

At the first rate-setting meeting after the 14 May elections, the Turkish central bank kept its policy rate on hold at 8.50% in line with the market consensus and maintained its forward guidance that the current policy rate is adequate to support the recovery from the earthquakes earlier this year. Accordingly, the market's reaction to the decision was muted, as USD/TRY has been flat.

After the elections, the CBT took a tightening step and expanded the scope of the security maintenance requirements based on loan growth to include other commercial loans and consumer loans. But, a few days later, this was reversed ahead of the election run-off, though liraisation regulations and news reports of increased controls over banks' daily FX transactions have remained in place. In this environment, whether the CBT came up with any signal for a policy change or renewed forward guidance was quite important and closely watched by the market.

However, the CBT's assessment this month was almost a carbon copy of the note shared after the

## April meeting:

- The bank has kept its assessment on the global economy completely unchanged, once again mentioning recession concerns due to a number of factors including “conditions threatening financial stability”. Given this backdrop, financial markets are also shifting their expectations related to the end of tightening cycles in the near term.
- Regarding the domestic economic outlook, the CBT seems to be more positive with a faster-than-expected recovery in the earthquake region.
- It also kept the forward guidance unchanged while pointing out that “the effects of the earthquake in the first half of 2023 will be closely monitored”. The bank also restated the need to keep financial conditions supportive in response to the earthquakes and repeated its emphasis on alternative policy instruments and alignment of all policy instruments with “Liraisation” targets.

The consensus view points to the need for normalisation in the conduct of monetary policy given the narrowing room for muddling through with continued pressure on reserves, which have declined by US\$22.1bn on year-to-date basis, standing at US\$105.1bn as of 12 May. In this regard, whether the new administration after the second round of the presidential elections is to change/revise the new economy model will be a key issue for watchers of the Turkish economy.

## 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 [www.ing.com](http://www.ing.com).