

## Turkey: No surprise from the CBT

The Central Bank of Turkey kept its policy rate unchanged as expected but remains concerned about medium term inflation, keeping the door open for more hikes, if needed



The Turkish Central Bank in Ankara

Despite prevailing inflationary forces and continued strength of economic activity, the CBT kept its policy rate unchanged at 17%, in line with the consensus, preferring to maintain a 'wait-and-see' stance, albeit with a hawkish tone. The decision can also be attributed to ongoing strength in the Turkish lira and an improvement in the risk premium.

Regarding the policy guidance, the February statement was updated with the bank's recent commitment in the January inflation report to maintain "the level between the actual / expected inflation rate path and the monetary policy interest rate path" until reaching the 5% inflation target (projected to be reached in 2023 according to its latest forecasts). This tighter for longer stance, with a signal to keep the real policy rate high enough to pursue "a strong, continuously sustained disinflationary balance" is encouraging as it shows the CBT's long-term perspective with reference to the inflation target.

The remaining part of the rate setting statement was a carbon copy of the previous one issued in January. Accordingly:

- The CBT remains vocal about the need to keep a tight stance for a longer period, given the

risk of inflation expectations and pricing behaviour diverging from the medium-term target path and the bank has kept the door open for additional front-loaded tightening, if needed.

- On the inflation side, the CBT expects the impact of restrictive policy moves on credit and domestic demand to be more pronounced in the period ahead, ultimately leading to the start of disinflation. However, the bank is still concerned about the medium term outlook, given the increase in wages, supply constraints and the uptrend in commodity prices, leaving it cautious on the outlook.
- The bank sees that “economic activity is on a strong course”. While the January manufacturing and sectoral PMIs point to a strong performance in 1Q of this year, construction and services related indicators i.e. turnover, signal some moderation lately, though they remain at relatively high levels, supporting the CBT's view.

All in all, the CBT has remained decisive on keeping a tight stance for longer, while also leaving an open door for more hikes. So the bank will continue to be cautious in the near term given not only inflationary pressures, but also concern about the level and composition of reserves, high dollarisation and the need to maintain capital flows and be ready to deliver, especially in case of further upside inflation surprises.

## 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>.