

Turkey: No surprise at the MPC meeting

A clear hawkish shift from the Federal Reserve had little impact on the Central Bank of Turkey's decision today, with the policy rate flat and policy guidance unchanged



At the June rate setting meeting, the CBT maintained its recent rhetoric and kept the policy rate flat at 19%, in line with market expectations and our call, amid challenging inflation dynamics and a fragile currency outlook. So it seems a clear hawkish Fed shift has not prompted any significant changes at the CBT today.

While the MPC statement saw some minor changes to the assessment of global and domestic developments, policy guidance has remained unchanged, with the current stance expected to continue until headline inflation falls significantly. This is expected to occur at the end of the third quarter or early in the fourth quarter, according to the April inflation report. On the inflation side, the bank is cautious due to the ongoing upside risks driven by a large number of factors including cost effects, demand conditions, supply constraints and inflation expectations despite signs of a moderation in domestic demand. As current low ex-post real rates and risks to the CBT's inflation forecast path leave little room to act, it will likely remain on hold until an improvement in inflation allows the Bank to ease moderately, which is likely in October.

The CBT's assessment of the economic outlook, on the other hand, shows some positive tweaks as it acknowledges the:

- Supportive impact of momentum in vaccinations on the world recovery. However, inflationary forces have gained power, impacting global financial markets.
- Strong economic activity despite a deceleration in domestic demand amid pandemic control measures and a tightening in financial conditions in the second quarter. The bank sees support from increasing vaccinations in Turkey, leading to a recovery in services and tourism.
- Slower credit growth on the back of policy tightening. The CBT has remained on alert regarding the pace and composition of lending.
- Improvement in the current account balance and the Bank expects an acceleration in the pace of narrowing thanks to export strength, weakening credit expansion, lower gold imports and a recovery in tourism revenues.

All in all, given challenging inflation dynamics, fragile capital flows and the exchange rate outlook, the CBT has remained on hold this month, and signals caution in its policy actions near term. The inflation outlook and the Fed's shifting stance which implies earlier tightening are factors that could impact the timing and direction of the CBT's moves in the rest of the year.

Author

Muhammet Mercan

Chief Economist, Turkey

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.