

## Turkey's policy rate and monetary stance unchanged, as expected

The Central Bank of Turkey kept the policy rate flat in June, sticking to the current policy framework which has been in place since last December



In line with expectations, the CBT kept its policy rate on hold (at 14%) at the June MPC meeting, and signalled a continuation of its current policy plans. This includes plans to implement the “strengthened macro-prudential policy set” with additional measures, if needed, and plans to introduce further collateral and liquidity policy actions in line with the “liraization strategy”, following a finalisation of the review process.

The CBT's reserve losses accelerated in May despite continuous FX purchases by the CBT through the FX-protected deposit scheme, and FX surrender requirements of exporters and tourism firms. Accordingly, policymakers have reacted with measures to try to replicate some parts of the monetary transmission mechanism. The aim is to:

- Put a break on commercial TRY loan growth in line with the signal to strengthen the macro-prudential policy set (i.e asset-based reserve requirements, risk weight adjustments etc).
- Strengthen FX reserves, reflecting the aim of keeping FX stable (i.e. higher FX surrender requirements).

- Divert local demand away from FX (i.e. new revenue indexed bonds).
- Strengthen demand for local government bonds (ie. collateral requirements for banks against their FX liabilities which are in the form of FX deposits).
- Increase the appeal of TRY assets for foreign investors (i.e the introduction of swap allocations for foreigners & reduced fees for issuance of securities to foreign investors).

The June MPC meeting shows that the CBT will not change its course, and will maintain macro-prudential regulations, as well as collateral and liquidity policies, in line with its “liraization strategy”. With these policy actions, the CBT aims to “strengthen the effectiveness of the monetary policy transmission mechanism”.

The rate-setting statement this month showed little change in comparison to the note released after the May meeting. The CBT did turn quite negative in its global outlook, noting the “weakening in worldwide economic activity” and downward revisions to global growth forecasts. But it also noted that the robust growth performance has continued in the second quarter thanks to strong external demand. The Bank mentioned that the support provided to the economy from tourism should be sustainable, and it maintained its focus on the “allocation of funds for real economic activity purposes”.

After pronounced TRY weakness in recent weeks and pressure on reserves, we see some stabilisation in net reserves (excluding swaps). This is due to a wave of measures from late April onwards, particularly impacted by higher FX selling requirements for goods and services exporters, out of their FX revenues. Given no change in policy direction to prioritise inflation and allow a normalisation in real rates, the risks to the macro outlook will likely remain a key concern depending on exchange rate developments and higher price pressures.

## 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).