

## Turkey: Policy rate remains flat after May MPC

Given challenging inflation dynamics, fragile capital flows and the exchange rate outlook, the Central Bank of Turkey has remained on hold this month, keeping the policy rate at 19%, as expected



At the May MPC meeting, the CBT kept the policy rate unchanged at 19%, in line with the consensus and our call, given the worsening in inflation dynamics in recent months and challenging currency outlook.

After substantial changes at the April meeting about the future course of monetary policy which included i) an omission of the commitment to deliver additional tightening, if needed and ii) the dropping of the tighter-for-longer pledge until a permanent fall in inflation is seen, policy guidance in the rate setting statement has remained unchanged in May. Accordingly, the MPC states that the policy rate will be higher than inflation to “maintain a strong disinflationary effect”.

However, the CBT's assessment of the economic outlook shows some revisions as it:

- Acknowledges a reacceleration in the commodity price uptrend since the April MPC meeting. The bank has remained optimistic about a global recovery with the supportive accommodative policies and progress in vaccination, while it pointed out the rising inflation expectations in international markets.

- Sees slight momentum loss in domestic demand on the back of intensifying pandemic control measures. However, economic activity is still strong despite pandemic constraints, also due to support from external demand.
- Points out the more visible impact of tightening financial conditions on consumer loans has been milder in recent weeks. The bank is more certain now about the decelerating effect of monetary tightening on credit and domestic demand.
- Expects an improvement in the current account balance on the back of mean reversion in gold imports, moderating credit growth and strength in exports, despite higher commodity prices.

All in all, given the challenging inflation dynamics, fragile capital flows and the exchange rate outlook, the CBT has remained on hold this month, and has signalled caution in its policy actions. The inflation outlook will remain key in the near term. While it may have peaked at 17.2% with the April release, risks in the short term are quite significant and the expected disinflation could also be slower than what the CBT has envisaged. Given this backdrop, we expect the first cut will likely come in late 3Q.

## 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>.