

## Turkey's central bank continues in same direction

While the Central Bank of Turkey left its policy rate unchanged at 9%, as expected, it continued to signal further macro-prudential measures, as discussed in its monetary policy framework for this year



The Central Bank of Turkey

Following significant easing last year (despite growing external imbalances and elevated inflation) the CBT kept the policy rate unchanged at 9% at the first rate-setting meeting of the year. This was in line with the market consensus. The forward guidance also remained unchanged.

In the MPC note, while the CBT removed the reference to credit, collateral and liquidity policies that would be implemented to strengthen the effectiveness of the monetary policy transmission mechanism, it again emphasised alternative policy instruments and added that all policy instruments, in particular banks' funding channels, will be aligned with "liratisation" targets. This shows that the forward guidance essentially remained unchanged. Since the release of the "2023 Monetary Policy and Liratisation Strategy" document, the bank has announced a number of macro-prudential moves, including:

- widening the scope of the securities maintenance regulation to factoring companies
- extending this regulation for banks to end-2023
- expanding the scope of assets and liabilities of banks subject to the securities maintenance

practice

- encouraging banks to channel their external debt to FX loans
- cutting reserve requirements on TRY deposits with longer maturities and on banks' direct FX borrowing from abroad to reduce their borrowing costs and support FX liquidity.

These steps leading to a significant rise in TRY deposit rates seem to reflect the objective of containing FX pressure in the near term.

Regarding the global outlook, the tone seemed to be somewhat more positive in comparison to the assessment last month, with the Bank citing recently released data which points to stronger economic activity than anticipated. However, the Bank still seems to be cautious about recession concerns in developed economies due to geopolitical risks and interest rate hikes. It also reiterated the ongoing adjustment in financial market expectations about global central bank rate hike cycles. Regarding the domestic outlook, the CBT continued to point to slowing growth, especially in the last quarter of 2022, due to weaker external demand “despite a relatively strong course in domestic demand”. Accordingly, the bank added domestic consumption demand as one of the factors this month keeping risks to the current account balance alive, in addition to the “high level of energy prices and the likelihood of a recession in the main trade partners”.

On the inflation front, the bank seemed to be content with the improvement in the level and underlying trend of inflation citing “the support of the integrated policy approach implemented to strengthen sustainable price stability and financial stability”. However, given deeply negative real interest rates, further disinflation would be challenging, in our view, while risks to the outlook are on the upside given the significant deterioration in pricing behaviour, higher trend inflation and still elevated level of cost-push pressures.

Given this backdrop, the CBT remains on the policy path of keeping interest rates low, maintaining a selective credit policy and pursuing a ‘liratisation’ strategy.

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