

## Turkey cuts rates again, but pace slows

The Central Bank of Turkey has cut its policy rate by 75bp to 11.25%, extending the easing cycle. The move is more measured this time, despite higher headline and core inflation at the end of 2019 pushing the ex-post real policy rate markedly down



Central Bank of Turkey governor, Murat Uysal

# -75bp

CBT policy rate change

to 11.25%

### The decision

In its first rate-setting meeting of the year, the Central Bank of Turkey (CBT) maintained the easing cycle at a slower pace and reduced the policy rate (1-week repo rate) by 75bp to 11.25%. Calls were split between no change and a 100bp reduction given the supportive global backdrop, continuing currency stability and still sub-par economic activity. We were expecting no move this month as the decline in the (ex-post) real policy rate with large rate cuts and a recent rise in inflation could risk TRY stability.

## Key guidance

In its statement, the CBT kept key guidance sentences broadly unchanged, given that

1. it still sees after the move that “the current monetary policy stance remains consistent with the projected disinflation path”, and
2. it will continue to determine monetary policy by considering “the indicators of the underlying inflation trend to ensure the continuation of the disinflation process”.

Accordingly, the bank vows to maintain a cautious monetary stance. Despite the slower pace of easing compared with the deep cuts in the second half of 2019, no meaningful change in the statement and policy guidance over the last month indicates a lack of a clear signal for the near-term policy plan. This can also be an indicator that depending on the performance of the TRY, further (measured) easing cannot be ruled out.

## Details of the statement

Regarding the inflation outlook, the CBT sees:

1. continuing improvement in the inflation outlook and sustained “widespread” decline in inflation expectations
2. a mild trend in core inflation driven by exchange rate developments, demand conditions and producer prices
3. the inflation path broadly in line with the year-end projection

There are risk factors for the CBT in reaching its year-end estimate, not least a likely reversion in unprocessed food inflation towards the long term average; benign food inflation significantly contributed to the disinflation process last year. It's also worth considering the inertia in services inflation along with still elevated forward-looking expectations despite some improvement in recent months.

As for economic activity, the CBT's assessment on growth remains unchanged, citing:

1. the contribution of net exports to growth to decline
2. growth to be supported by the ongoing disinflation and the easing in financial conditions
3. the improvement in the sectoral diffusion of the recovery and continuation of the weakness in investments.

Overall, given its ongoing growth priority along with a supportive global backdrop for EM risk and stability in the currency, the CBT extended its easing cycle further, though with a more measured move this time despite higher headline and core inflation at the end of 2019 pushing the ex-post real policy rate to negative. The bank will likely remain cautious in the near term on the back of likely stickier inflation readings with a less supportive base and a low real rate buffer. It wishes to maintain its easing bias and deliver if it should there be room to manoeuvre.

## 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>.