

## Turkish Central Bank maintains easing with a smaller cut

The CBT extends its easing cycle further but with a more measured move this time. It's in line with its ongoing priorities and a relatively supportive global backdrop and comes despite higher headline inflation and a less favourable FX environment



The Turkish Central Bank in Ankara

# -50bp

CBT policy rate change  
to 10.75%

### The decision

At its February rate-setting meeting, the Central Bank of Turkey (CBT) maintained its easing cycle but this time at a slower pace, reducing the key rate by 50bp to 10.75% from 11.25%. Calls were split between 'no change' on the back of a still recovering growth performance and a continuing supportive global backdrop, and a 50bp reduction attributable to a rise in market volatility with growing geopolitical risks and a risk-off mode towards EM assets given the coronavirus fears. We

were not expecting a move this month given the recent pressure on TRY assets.

## Policy guidance

In its statement, the CBT kept key guidance sentences unchanged: it sees the current monetary stance to be consistent with “the projected disinflation path” and that “the continuation of a cautious monetary stance” is still required to keep the disinflation process on the “targeted” track. The Bank also reiterated that it would continue to determine monetary policy by considering “the indicators of the underlying inflation trend to ensure the continuation of the disinflation process”.

All in all, the February statement does not show a meaningful change in policy guidance over the past month. This can be an indicator that depending on the performance of the TRY, further measured easing cannot be ruled out.

## Details of the statement

Differing from the last month, the CBT sees “signs of recovery” in investment and employment though it still remains weak. Additionally, the Bank adds that it closely monitors the likely impact of credit expansion on external balance and inflation, while pointing out “a moderate course in current account balance” as “a crucial element of the macroeconomic policy mix.” These add to the signals that policymakers are ready to take action to curb current significant consumer lending appetite in the banking sector. The remaining part was unchanged as the CBT stated that:

1. the recovery continues,
2. the sectoral diffusion of economy activity improves,
3. the recovery will be driven by the disinflation process and an improvement in financial conditions given that the contribution from net exports to economic growth declines.

The CBT does not mention the improvement in the inflation outlook this month, though it sees the continuation of a mild trend in core inflation driven by inflation expectations, demand conditions and producer prices. The CBT envisages annual inflation to remain elevated in 1Q at slightly above 12% and adopting a downtrend thereafter towards 8.2% by the end of this year.

With this latest move, the ex-post real policy rate went down further, close to the lows realised since 2013. However, the CBT continues to focus on the ex-ante real rate calculated by using expected inflation to guide its policy decisions. Given that the 12M and 24M inflation expectations, according to the CBT’s latest survey, stand at 9.6% and 8.5%, respectively, the CBT will not likely overrule further easing as long as the currency remains stable.

Overall, given its ongoing growth priority along with a relatively supportive global backdrop, the CBT extended its easing cycle further, though with a more measured move this time despite higher headline inflation and less favourable FX dynamics. The Bank will 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 while maintaining its easing bias and delivering if it sees 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>.