Turkish Central Bank signals macro prudential tools targeting funding channels

The CBT kept the policy rate unchanged at 9% in December, in line with consensus. In addition, the bank signalled that macro-prudential measures to be included in the 2023 Monetary and Exchange Rate Report would mainly target funding channels.

The Central Bank of Turkey

The rate setting statement did not show major surprises but some tweaks related to the bank's assessment of the global outlook and evidence of expected macro-prudential measures as the CBT stated last month that a comprehensive set of policies would be announced in December with the publication of the 2023 Monetary and Exchange Rate Report.

For the global outlook, the CBT seemed more vocal about recession concerns in developed economies attributable to geopolitical risks and interest rate hikes. Accordingly, it pointed to ongoing adjustment in financial market expectations about the global central banks' rate hike cycles. The bank reiterated that effects of high global inflation on inflation expectations and international financial markets are closely monitored.

Regarding macro-prudential measures, the CBT came up with policy guidance last month and signalled further steps to support the effectiveness of the monetary transmission mechanism in the “2023 Monetary and Exchange Rate” document that is due for release in December. Given the CBT’s focus on keeping financial conditions supportive, one expectation is regulatory steps to ease credit conditions. While the government has been working on an additional Credit Guarantee Fund (CGF) package, annualised 13-week averages of weekly growth rates on lending have recently shown some acceleration driven particularly by SME lending and general purpose loans. Another expectation is that given ongoing widening of the spread between the deposit rate and the commercial lira loan rate, these macro-prudential measures could target the ongoing rise in deposit rates. In the December MPC note, the CBT eliminated the sentence that “the spread between policy rate and the loan interest rates driven by the announced macro-prudential measures is closely monitored”, while it added that “the entire policy toolset, particularly funding channels, will be aligned with liraization targets”. So, mentioning funding channels as the target of additional macro-prudential measures still implies that wider spread has remained a concern, though we should not rule out the introduction of new and longer-term funding alternatives, in our view.

All in all, while there are expectations of some easing in the current banking sector regulations along with targeted credit stimulus measures, such as CGF loans that are currently in the pipeline, and budget spending has further accelerated lately, we continue to expect the CBT to keep the policy rate unchanged at 9% ahead of the elections. The CBT’s macro-prudential framework signalled further strengthening in December would be key for the macro and financial outlook in the near term.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Disclaimer