

# Macronote

## MPC Decision:

### No surprise...

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In line with our expectation, the MPC has left the 1-week rate (8.00%) and O/N marginal lending rate (9.25%) unchanged, but raised the late liquidity window by 75 bps to 11.75%. **The main motivation as apparently signaled by the CBRT Governor last week was that inflation would rise significantly (in our view towards 12%) in 2Q17.**

- The statement “significant rise in inflation is expected to continue in the short term due to lagged pass-through and the base effect in food prices” was kept unchanged as in the previous MPC note, pointing to continuing inflation pressures.
- **Despite a significant rate hike today, we do not expect a sudden jump in the average cost of funding from its current level of around 11% in the short term.** We believe, the Bank will see reduced pressure on the TL as an opportunity to stop tightening liquidity in the system. Hence, going forward, we might see some easing in monetary policy, despite today’s hike in the late liquidity window, underlying the complicating nature of the monetary regime in Turkey.
- However, the policy rate decision, we believe, has lost meaning to a large extent, as domestic loan&deposit rates have stopped moving in tandem with the policy rates, in fact stagnating since last autumn.
- Against a backdrop of still weak momentum in the economy - unemployment rose by 1.9 percentage points yoy to 12.7% in December (November-December-January average), the highest level since March 2010 - we expect the CBRT&other officials to continue helping to accelerate credit growth in 2Q17, during which inflationary pressures will be even more evident.

### Going forward....

- Despite over 20% YoY current growth momentum in the banking system, deposit growth (9% YoY fx-adjusted) and the lack of external borrowing appetite point to the limits of credit growth going forward, despite the recent macro-prudential easing and government’s extended credit guarantee mechanism.
- The momentum in credit growth stands to disappear quickly unless strong capital inflows kick-in. Capital flows has been very unsupportive of growth lately as was evident in January BOPs report.
- The CBRT’s move today to push O/N rates towards 11.75% also speaks of risks to the credit transmission mechanism emanating from the balance of payments front.
- Weak investment impetus due to a significantly depreciated TL, plus the slowdown in consumption and the banking sector’s limited room for credit growth against a backdrop of rising fx borrowing costs will be major hurdles before a strong economic growth performance.

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