

Macro note – MPC Rate Decision

The Central Bank of the Republic of Türkiye keeps its policy rate steady at 37%, in line with expectations. While emphasizing geopolitical developments and the deterioration in risk appetite, it is clearly stated that the monetary policy stance would tighten in the event of a significant and persistent deterioration in the inflation outlook.

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The Central Bank of the Republic of Türkiye (CBRT) Monetary Policy Committee (MPC) has kept the policy rate unchanged at 37 per cent at this month's meeting, in line with market expectations. Our expectations were also for no change in interest rates. The details of the decision reveal a cautious stance and a hawkish tone of tightening when necessary. The text briefly summarizes recent developments. The deterioration in global risk appetite is affecting Turkey and other emerging economies, particularly through credit risk premiums and capital outflows. In addition, geopolitical tensions are significantly increasing energy prices, especially oil, fueling inflation concerns. Our baseline scenario prior to recent developments was for a 50-100 basis point cut in March. However, the current situation, characterized by uncertainty and significant risks, suggests an interest rate hike rather than a cut. To briefly summarize recent developments, the spillover of the US-Iran-Israel conflict to regional countries has led to oil prices temporarily reaching USD120 per barrel. As a result, CBRT suspended its repo auctions and began providing actual funding through its lending rate. This can be described as a hidden interest rate hike. As the excess liquidity in the market disrupted the transmission mechanism, the CBRT initiated negotiated foreign exchange transactions. This both curbed exchange rate volatility and absorbed excess liquidity in the market. While the steps taken for liquidity management supported monetary policy, fiscal policy also made a significant contribution to inflation risks. As emphasized in today's decision text, the transition to the escalator clause has limited the impact of volatility in energy markets on final consumer prices within the framework of coordination between monetary and fiscal policy. Although the effects of geopolitical developments on the inflation outlook through the cost channel and economic activity remain unclear, they are being closely monitored. The prolongation of the war will significantly increase cost pressures both in the supply chain and in energy prices. Although current scenarios are based on the war ending soon, uncertainties continue to suppress risk appetite. The most hawkish statement we see in the decision text concerns the monetary policy stance in the event of a significant and persistent deterioration in the inflation outlook. Although this rhetoric was expressed in previous meetings, it was removed from the decision text. For the conditions of being both significant and persistent to be met simultaneously, there must be a deterioration in the main inflation trend that is inconsistent with the intermediate targets, and this must not be temporary (1-2 months). It has been clearly stated that monetary policy will be tightened further if this occurs. We believe this emphasis is important for the remainder of the year. If energy prices or supply chain-related cost pressures become permanent, risk appetite will weaken significantly, as inflationary pressures will arise not only domestically but also globally. In this case, we may need to update our baseline scenarios for both developed and developing countries. The support provided by fiscal policy will increase pressure on the budget for a while. Inflationary pressures arising from the balance of payments also pose a risk to the intermediate targets. In this context, we are in a precarious situation.

The details of the decision text include the reasons for the tight stance and current developments. Accordingly, "The main trend of inflation remained close to flat in February. As uncertainties increased as a result of geopolitical developments, a deterioration in global risk appetite and an increase in energy prices were observed. Decisions supporting tight monetary policy and coordinated fiscal measures have been taken to limit the risks that these factors could pose to the inflation outlook. The effects of geopolitical developments on the inflation outlook through the cost channel and economic activity are being closely monitored. The tight monetary policy stance, which will be maintained until price stability is achieved, will strengthen the disinflation process through the demand, exchange rate and expectation channels. The Committee will determine the steps to be taken regarding the policy interest rate in a manner consistent with the intermediate targets, taking into account inflation outcomes, the main trend and expectations, and ensuring the tightness required for disinflation. Monetary policy decisions are taken with a focus on the inflation outlook, on a meeting-by-meeting basis and with a cautious approach. Given recent developments, the monetary policy stance will be tightened in the event of a significant and persistent deterioration in the inflation outlook. Should developments in credit and deposit markets deviate from expectations, the monetary transmission mechanism will be supported by additional macroprudential measures. Liquidity conditions will remain closely monitored and liquidity management tools will continue to be used effectively." Liquidity management and macroprudential measures continue to be used effectively. As there has been no significant deterioration in the main inflation trend, the measures taken so far are considered sufficient and the interest rate has not been changed.

In summary, the Central Bank has kept the policy interest rate unchanged at 37 per cent in line with expectations in today's interest rate decision. Geopolitical risks, energy prices and upward pressures on inflation from the supply chain are being closely monitored. Furthermore, it has been reiterated that decisions will be made on a meeting-by-meeting basis and with a focus on inflation, and it has been emphasised that monetary policy will be tightened in the event of a significant and persistent deterioration in the inflation outlook. Uncertainty in global markets may disrupt the CBRT's disinflation targets for a while. We would like to underline that improvements in this area could lead to interest rate cuts exceeding expectations. The CBRT, which effectively uses its primary policy tool and adjusts liquidity with complementary macroprudential measures, maintains its determined stance in the fight against inflation. In this context, we anticipate that cautious and gradual interest rate cuts will continue until the end of the year, barring any additional shocks in local and global markets. We would like to emphasise that in the event of new supply- or demand-side shocks, the policy rate stance may be subject to further adjustments.

Graph 1: Policy, Loan, and Deposit Rates (%)



Source: CBRT, ŞEKER Invest

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