

Macro note – MPC Rate Decision

CBRT keeps policy rate unchanged at 50% in line with expectations. It is also emphasized that the risks to pricing behavior remained buoyant with the latest inflation data.

Abdulkadir DOGAN

Chief Economist

adogan@sekeryatirim.com.tr

(+90) 212 334 33 33/313

The CBRT Monetary Policy Committee (MPC) has kept the policy rate unchanged at 50% at this month's meeting in line with expectations. The hawkish tone of the decision text was maintained, especially emphasizing the recent developments in inflation. While domestic demand continued to retreat, it was reiterated that the decline in services inflation was postponed to the last quarter. The hawkish tone in the text was most evident in the ongoing risks to pricing behavior during the disinflation process and increased uncertainty over the pace of disinflation. Hence, we get the message that expectations management is not yet at the targeted level, and that it is premature to cut interest rates. In case of a deterioration in the inflation outlook, the CBRT reemphasized that monetary policy tools would be used effectively instead of monetary tightening. From this point of view, we understand that the CBRT will follow a data-driven path in terms of interest rate cuts and act patiently, but is reluctant to raise interest rates. If there is a need for tightening in the market, other tools will be preferred instead of the policy rate. The CBRT reiterated that it will support monetary transmission with additional precautionary measures in case of unexpected developments in the credit and deposit markets. It was stated that liquidity conditions are closely monitored and sterilization tools will continue to be used effectively. A summary of the changes in the text reveals that September inflation data supports the CBRT's cautious stance on interest rate cuts, and that this stance will continue until inflation starts to decline significantly.

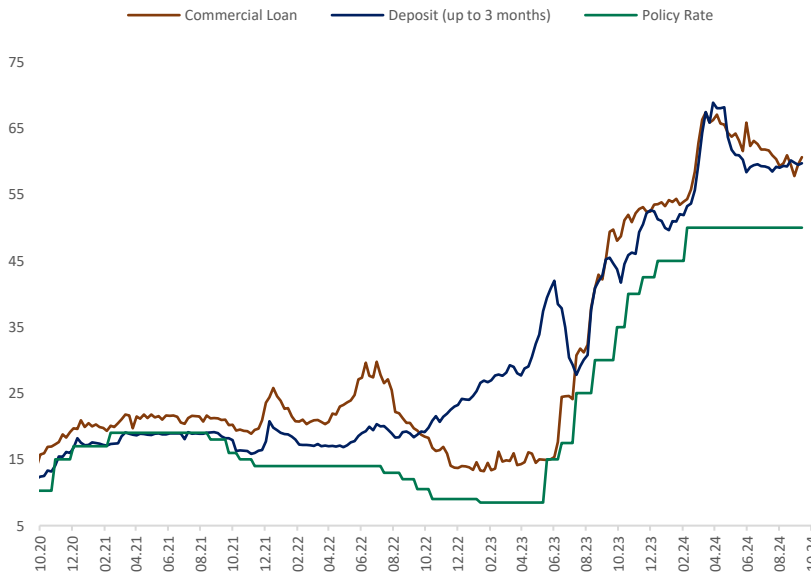
In the details of the decision text, the rationale for the tight stance and current developments are given. Accordingly, "The underlying trend of inflation increased slightly in September. Indicators for the third quarter suggest that domestic demand has continued to slow down, approaching levels supportive of disinflation. Core goods inflation remains low, while services inflation is expected to improve in the last quarter. Uncertainty regarding the pace of inflation recovery has increased with the recent data flow. The Committee noted that inflation expectations and pricing behavior continue to pose risks to the disinflation process." September's inflation data demonstrated the justification for the cautious stance and confirmed that risks prevail. Although domestic demand continues to slow down, the decline in services inflation has been postponed to the last quarter. Inflation expectations are not at the level targeted by the Committee and remain a risk factor. The Committee gave an implicit message that there would be no rush to cut interest rates.

The section on the rationale for the interest rate decision is summarized as follows. "The decisive stance in monetary policy will reduce the underlying trend of monthly inflation and strengthen the disinflation process through rebalancing in domestic demand, real appreciation in the Turkish lira and improvement in inflation expectations. Although the Committee decided to keep the policy rate unchanged, it reiterated its cautious stance against upside risks to inflation. The tight monetary policy stance will be maintained until the underlying trend of monthly inflation displays a significant and lasting decline and inflation expectations converge to the projected forecast range. In case of a significant and permanent deterioration in inflation, monetary policy tools will be used effectively." It was re-emphasized that the tight stance will be maintained until the underlying trend of inflation declines on a monthly basis. In this context, the main indicator of the maturity of the tight stance will be the monthly inflation developments. The effective use of monetary policy tools in case of a deterioration in inflation indicates that other tools will be preferred instead of the policy rate.

The paragraph on macro financial stability was amended as follows. “In case of unanticipated developments in credit and deposit markets, the monetary transmission mechanism will be supported by additional macro-prudential steps. Liquidity conditions are closely monitored in view of possible developments. Sterilization tools will continue to be used effectively.” It was re-emphasized that deterioration in the credit and deposit spreads will not be allowed. The TL surplus arising from FX outflows and capital inflows will continue to be sterilized with appropriate instruments and the tight stance will be maintained.

In summary, the Central Bank kept the policy rate unchanged at 50% in line with expectations in today's interest rate decision. Recent inflation indicators support the justification for the CBRT's tight stance. Displaying a hawkish stance, policymakers drew attention to the risks to inflation expectations. It was stated that services inflation would decline in the last quarter and that rigidity persisted. The CBRT, which will follow a data-driven path in terms of interest rate cuts, sent a clear message that it will not cut interest rates prematurely without seeing a significant improvement. The CBRT maintains its decisive stance in the fight against inflation, both by using the main policy instrument effectively and by adjusting liquidity through complementary macro-prudential measures. In this context, we believe that interest rate cuts will not be initiated until a significant decline in inflation is achieved and inflation expectations are in line with the forecast path. We underline here that the policy rate stance may be revised in case of new supply or demand shocks.

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



Source: CBRT, ŞEKER Invest

ŞEKER INVEST RESEARCH

Şeker Yatırım Menkul Değerler A.Ş.
 Büyükdere Cad. No: 171 Metrocity
 A Blok Kat 4-5 34330 SİSLİ /İST
 TURKEY

TEL: +90 (212) 334 33 33
 Fax: +90 (212) 334 33 34
 E-mail: research@sekeryatirim.com
 Web: <http://www.sekeryatirim.com/english/index.aspx>

For additional information, please contact:

Research

Kadir Tezeller	Head	+90 (212) 334 33 81	ktezeller@sekeryatirim.com
Burak Demirbilek	Utilities, Pharmaceutical, Defense Industry	+90 (212) 334 33 33-128	bdemirbilek@sekeryatirim.com
Sevgi Onur	Banks	+90 (212) 334 33 33-150	sonur@sekeryatirim.com
Engin Degirmenci	Glass, Cement	+90 (212) 334 33 33-201	edegirmenci@sekeryatirim.com
A. Can Tuglu	Food & Bev., Retail, Auto, Aviation, Oil&Gas	+90 (212) 334 33 33-334	atuglu@sekeryatirim.com
Esra Uzun Ozbaskin	Telcos, Iron & Steel, Cons. Dur.,	+90 (212) 334 33 33-245	euzun@sekeryatirim.com

Economy & Politics

Abdulkadir Dogan	Chief Economist	+90 (212) 334 91 04	adogan@sekeryatirim.com
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Institutional Sales

Batuhan Alpman	Head	+90 (212) 334 33 70	balpman@sekeryatirim.com
Deniz Keskin	Trader	+90 (212) 334 33 36	dkeskin@sekeryatirim.com
Muhammed Kerim Culum	Trader	+90 (212) 334 33 33-316	kculum@sekeryatirim.com.tr

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