

Macro note – MPC Rate Decision

The CBRT cut its policy rate by 300 basis points, exceeding expectations, to 43%. Although the asymmetric corridor remains in place, the text is dominated by hawkish rhetoric, indicating that the tight stance will continue.

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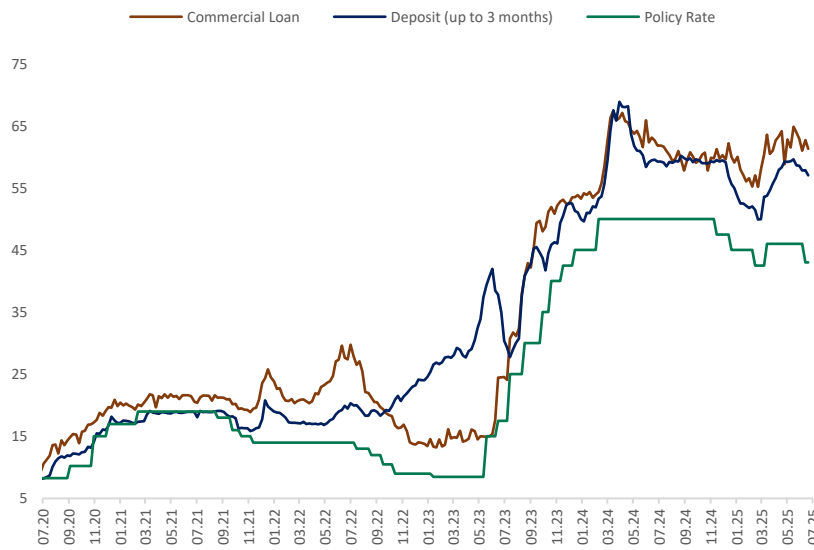
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The Central Bank of the Republic of Turkey (CBRT) Monetary Policy Committee (MPC) cut the policy rate by 300 basis points above market expectations to 43% at its meeting this month. Market expectations were for a 250-basis-point cut. At Seker Invest, our expectation was for a 350-basis-point cut. With this decision, the CBRT opted for the middle ground, avoiding both hawkish and dovish decisions. However, looking at the text as a whole, while a cautious cut in the policy rate was preferred, a hawkish tone was adopted in terms of monetary policy stance. The main reason for the CBRT's more cautious stance on the cut, given its forecast of a temporary rise in July inflation, is that disinflation in price dynamics is far from the target level. Prices, which slowed more than expected in May and June, appear to be showing a temporary rise in July. The CBRT has refrained from taking drastic steps without seeing how temporary this effect will be. On the other hand, its emphasis on expectations and pricing behavior still being a risk factor indicates that expectation management is not at the desired level, rather than current inflation. Global trade uncertainties, combined with domestic developments, led to a cautious rate cut. However, the start of the rate cut cycle had a positive impact on financial markets. The statement that the tight stance will continue with determination until price stability is achieved limited the positive impact. Recent political and economic uncertainties at both the local and global levels are weakening the predictability of monetary policy. In this regard, we consider the cautious interest rate cut to be an appropriate decision. The fact that interest rate cuts will be inflation-focused and meeting-based indicates that the cautious stance will continue.

The details of the decision text include the reasons for the tight stance and current developments. According to this, the main trend of inflation remained flat in June. Preliminary data indicate that monthly inflation will temporarily increase in July due to month-specific factors. Recent data show that the disinflationary effect of demand conditions is increasing. The possible effects of geopolitical developments and increasing protectionism in global trade on the disinflation process are being closely monitored. Inflation expectations and pricing behavior continue to pose a risk to the disinflation process. The tight monetary policy stance, which will be maintained until price stability is achieved, will support the disinflation process through demand balancing, real appreciation of the Turkish lira, and improvement in inflation expectations. Fiscal policy coordination will contribute to this process. The Council will determine the steps to be taken regarding the policy rate by taking into account inflation realizations, the main trend, and expectations, in a manner that ensures the tightness required by the anticipated disinflation. The magnitude of the steps will be reviewed with an inflation outlook-focused, meeting-based, and cautious approach. In the event of a significant and persistent deterioration in inflation, all monetary policy tools will be used effectively. The temporary rise in price dynamics in July has necessitated a cautious stance in monetary policy. Although demand conditions continue to improve, the balancing process is ongoing. In this process, the coordination of fiscal policy has been emphasized once again. We believe that the increase in July prices was also driven by fiscal policy. From this perspective, fiscal policies that support monetary policy are important.

In summary, the Central Bank has reduced the policy interest rate by 300 basis points above expectations to 43% in today's interest rate decision. The bank also maintained the corridor width asymmetrically, lowering the lending rate to 46% and the borrowing rate to 41.5%. A cautious and hawkish stance prevails throughout the text. In addition, it was reiterated that decisions would be made on a meeting-by-meeting basis and with a focus on inflation, implying that market volatility would not be tolerated. Uncertainty in global markets may temporarily disrupt the CBRT's disinflation targets. We want to emphasize that improvements in this area may lead to interest rate cuts exceeding expectations. The CBRT, which effectively uses its primary policy tool and adjusts liquidity with complementary macroprudential measures, continues to maintain its determined stance in the fight against inflation. In this context, we anticipate that gradual interest rate cuts will continue until the end of the year, provided there are no additional shocks in local and global markets. We would like to emphasize that in the event of new supply- or demand-side shocks, further updates to the policy rate stance may be necessary.

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



Source: CBRT, ŞEKER Invest

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