Macro note – MPC Rate Decision

The Central Bank of the Republic of Türkiye has cut its policy rate by 250 basis points, higher than expected, to 40.5%. While highlighting the downtrend in inflation and demand conditions, it emphasizes a monetary policy stance consistent with its intermediate targets.

Abdulkadir DOGAN
Chief Economist
adogan@sekeryatirim.com.tr
(+90) 212 334 33 33/313

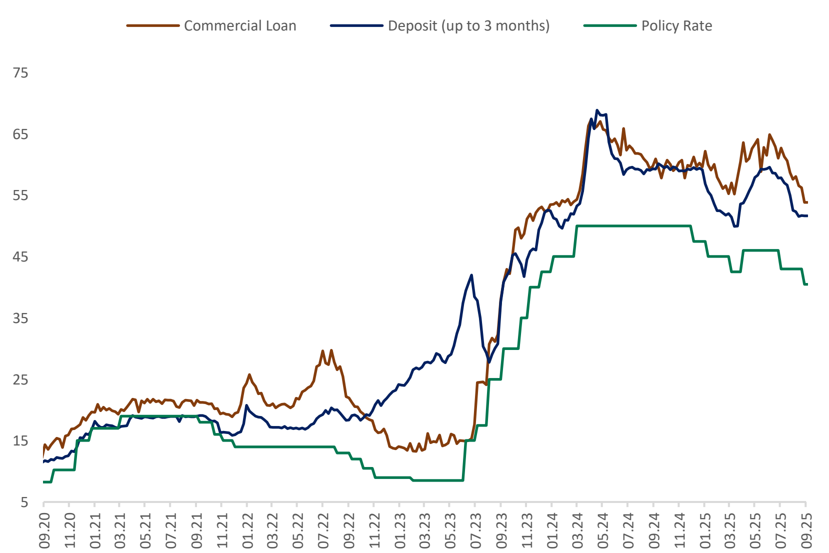
The Central Bank of the Republic of Türkiye (CBRT) Monetary Policy Committee (MPC) cut the policy rate by 250 basis points above market expectations to 40.5% at its meeting this month. The market and our expectation was for a 200 basis point cut in interest rates. Despite the larger-than-expected rate cut, the overall tone of the statement was hawkish in terms of the monetary policy stance. Looking at the details, it is stated that the main trend of inflation—on which monetary policy is based—slowed down in August. The main reason for the decision to cut interest rates beyond expectations lies in this detail. Another reason is the continued weakness in demand conditions and growth exceeding forecasts. The shift from demand- and inflation-based growth to production-oriented growth is easing inflationary pressures. While the text up to this point reflects the positive mood and the reasons for the cut, the following section shifts to a cautious stance and hawkish rhetoric. The first noteworthy point is the statement that the inertia in food prices and service inflation keeps risks alive. When the sub-items of food inflation are examined, we note that they continue to contribute significantly to annual inflation (the monthly trend for food and non-alcoholic beverages is above headline inflation, at 3.02%). On the other hand, although service inflation has declined since the beginning of the year, the annual rate of 45.77% is still far from the interim targets. Any excessive interest rate cuts before the risks here are brought to a manageable level will disrupt disinflation. The second emphasis is on pricing behavior, inflation expectations, and global developments. Although the effective functioning of the transmission mechanism requires a more pronounced decline in inflation in the expectation channel, 12-24-month inflation expectations have not retreated to the targeted level. Furthermore, the rigidity in these expectations increases upward pressure on pricing behavior. When global uncertainties are added to these pressures, we see that risk factors remain valid.

The paragraph containing hawkish rhetoric in the text details the monetary policy to be implemented. Accordingly, it is clearly emphasized that the tight stance will be maintained until price stability is achieved and that demand, exchange rate, and expectation channels will support this process. The emphasis on fiscal policy coordination has been replaced by the macroeconomic framework outlined in the Medium-Term Program, drawing attention to the coordination of macroeconomic targets as a whole, not just public finances. The most hawkish point is that the monetary policy stance will be adjusted to a degree that ensures disinflation in line with intermediate targets, taking into account inflation outcomes, the main trend, and expectations. Despite monthly fluctuations, the main trend of inflation remains the key indicator. The expectation channel will be anchored through intermediate targets, and monetary policy will be tightened if there is a significant deviation from the intermediate targets in the inflation outlook. The inflation intermediate targets will be the reference point for adjusting the tightness of the CBRT's monetary policy, and the tight stance will be maintained until the inflation outlook becomes consistent with the intermediate targets.

The details of the decision text include the reasons for the tight stance and current developments. Accordingly, "The main trend of inflation slowed in August. While growth exceeded forecasts in the second quarter, final domestic demand was assessed to have remained weak. Recent data indicates that demand conditions are at a disinflationary level. Food prices and high inertia in service items continue to exert upward pressure on inflation. Inflation expectations, pricing behavior, and global developments remain risk factors for the disinflation process. The tight monetary policy stance, which will be maintained until price stability is achieved, will strengthen the disinflation process through demand, exchange rate, and expectation channels. The macroeconomic framework envisaged in the Medium-Term Program will contribute to this process. The Board will determine the steps to be taken regarding the policy rate in a manner consistent with the intermediate targets, taking into account inflation outcomes, the main trend, and expectations, ensuring the tightness required for disinflation. The magnitude of the steps will be reviewed with an inflation outlook-focused, meeting-based, and cautious approach. If the inflation outlook deviates significantly from the intermediate targets, the monetary policy stance will be tightened. In the event of developments in the credit and deposit markets that are beyond expectations, the monetary transmission mechanism will be supported by additional macroprudential measures. Liquidity conditions will continue to be closely monitored, and liquidity management tools will continue to be used effectively." A cautious stance and hawkish rhetoric have been preferred throughout the text. The level and frequency of reductions will be determined on a meeting-by-meeting basis and will take all macroeconomic variables into account.

In summary, the Central Bank has cut the policy rate by 250 basis points above expectations to 40.5% at today's interest rate decision. A cautious and hawkish stance prevails throughout the accompanying text. Clear emphasis has been placed on intermediate targets, and it has been stated that monetary policy will be tightened if the inflation outlook deviates from these targets. Furthermore, it has been reiterated that decisions will be meeting-based and inflation-focused, implying that market volatility will not be tolerated. Global market uncertainty may disrupt the CBRT's disinflation targets for a while. We would like to emphasize 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 expect cautious and gradual interest rate cuts to continue until the end of the year, barring any additional shocks in local and global markets. We would like to emphasize that in the event of new supply or demand-side shocks, the policy rate stance may be updated.

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



Source: *CBRT, SEKER Invest*

ŞEKER INVEST RESEARCH

Şeker Yatırım Menkul Değerler A.Ş.
Buyukdere Cad. No: 171 Metrocity
A Blok Kat 4-5 34330 SİSLİ /IST
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, Defense Industry**	**+90 (212) 334 33 33-128**	bdemirbilek@sekeryatirim.com
Engin Değirmenci	**Cement**	**+90 (212) 334 33 33-201**	edegirmenci@sekeryatirim.com
A. Can Tuğlu	**Food & Bev., Retail, Auto, Aviation, Oil&Gas**	**+90 (212) 334 33 33-334**	atuglu@sekeryatirim.com
Başak Kamber	**Glass**	**+90 (212) 334 33 33-251**	bkamber@sekeryatirim.com

Economy & Politics

Abdulkadir Doğan	**Chief Economist**	**+90 (212) 334 91 04**	adogan@sekeryatirim.com

Institutional Sales

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

DISCLAIMER

I, Abdulkadir Dogan, hereby certify that the views expressed in this research accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

This report has been prepared by Şeker Yatırım Menkul Değerler A.Ş. (Şeker Invest, Inc.). The information and opinions contained herein have been obtained from and are based upon public sources that Şeker Invest considers to be reliable. No representation or warranty, express or implied, is made that such information is accurate or complete and should not be relied upon, as such. All estimates and opinions included in this report constitute our judgments as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors as they believe necessary. Şeker Invest may, from time to time, have a long or short position in the securities mentioned in this report and may solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) for any company referred to in this report and may, to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis upon which it is based, before its publication. This report is for the use of intended recipients and may not be reproduced in whole or in part or delivered or transmitted to any other person without the prior written consent of Şeker Invest. By accepting this document you agree to be bound by the foregoing limitations.