

## Economic Watch

# Türkiye | The CBRT remains cautious on inflation outlook

Adem Ileri, Seda Guler Mert  
23 July 2024

The Central Bank (CBRT) kept the policy rate at 50% in line with the expectations. They repeat their commitment to support monetary transmission mechanism via additional macro-prudential measures if needed. Given the most recent excess TL liquidity and the downside pressure on O/N TL rates, in a separate note sent to the banks, it is said that the CBRT might hold FC and gold swap auction to sterilize TL liquidity. Last Friday, the CBRT had also reduced the monthly credit growth cap to 1.5% (from 2%) in foreign currency lending. On inflation, they highlight a potential temporary increase in monthly inflation in July due to the adjustments in administered prices and taxes as well as supply-side factors in unprocessed food prices. However, they expect the rise in the underlying inflation trend to be relatively limited. They repeat their assessment on domestic demand as slowing down but still remaining at inflationary levels. Considering the lagged effects of the monetary tightening, they maintain a wait and see approach with their hawkish message on a potential tightening in case a significant and persistent deterioration in inflation trend is observed. We forecast inflation trend to keep improving after July's temporary effects and finish the year with 43% annual inflation. Since unanchored medium term inflation expectations maintain upside risk on inflation outlook, we keep an upward bias on our short term policy rate expectations which involve limited rate cuts in 4Q24.

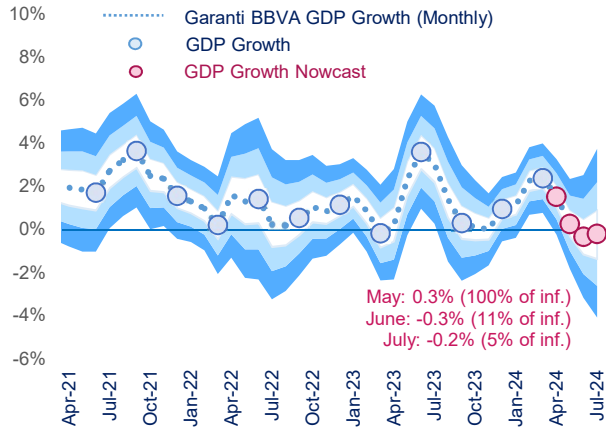
After June's exceptionally low inflation figure, we nowcast monthly inflation to be around 3.5% due to the one-off effects of the adjustments in administered prices and taxes together with indirect effects on food inflation. According to our calculations, 3-month seasonally adjusted inflation trend will move upward limitedly (to 3.1% from the previous 2.9%), which has also been highlighted by the CBRT. Yet, if those one-off effects are excluded, the underlying trend would still be able to improve. This is why the CBRT prefers to wait and see how the trend will move in the next months. In this respect, the CBRT remains cautious and remains highly attentive to inflation risks as underlined by stickiness in services inflation, inflation expectations, geopolitical risks and food prices. Despite much weaker than expected June inflation, inflation expectations have only limitedly improved in July and remained far from the CBRT targets with 43% for 2024 end and 25.4% for 2025 end (vs. 38% and 14% targets of the CBRT respectively).

On the economic activity, we nowcast a mild negative quarterly growth as of early July (-0.3% in 2Q24 and 2.4% in 1Q24). The targeted rebalancing in the economy has been slowly taking place due to the counter effects over the monetary transmission mechanism and still supportive fiscal stance. High inflation expectations, wealth effects and retailers' spending availability prevent a faster adjustment in private consumption. On one hand, since the adjustment of wages in 2H24 are much more limited compared to 1H24, a more restrictive monetary stance on top of easing inflation trend will result in a more obvious demand deceleration. On the other hand, a clear fiscal consolidation with effective savings measures might be missing in the short term to support monetary policy in fight against inflation.

On liquidity, given the current account surplus on high tourism season right now and slower but continuing capital inflows and de-dollarization of residents, the CBRT keeps accumulating reserves and ends up with excess TL liquidity. O/N TL rates have again declined below 50% and the CBRT has started to open TL depo auctions to sterilize the excess TL liquidity. Last Friday, they also reduced the monthly credit growth cap to 1.5% (from 2%) in foreign currency lending. After today's decision, it is said that the CBRT might also hold FC and gold swap auctions to sterilize TL liquidity. Therefore, we understand they will carefully monitor TL deposit rates and act accordingly.

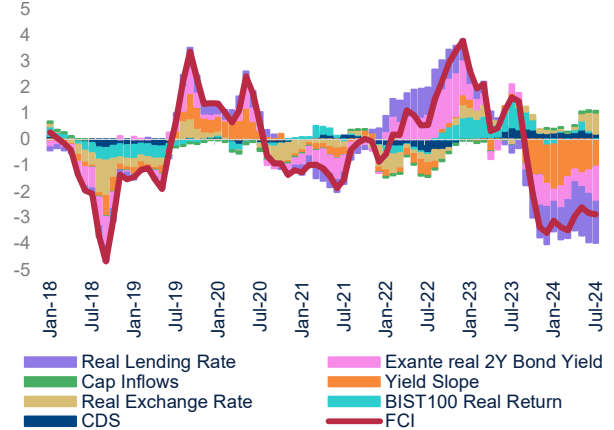
All in all, there will be some one-off effects on July inflation, which would also weigh on August reading. Under the assumption of a clearer rebalancing in the economy in 2H24, a steady depreciation of the currency and 38% natural gas hike in August, we forecast inflation trend to keep improving after July's temporary effects and finish the year with 43% annual inflation. Since unanchored medium term inflation expectations maintain upside risk on inflation outlook, we keep an upward bias on our short term policy rate expectations which include limited rate cuts in 4Q24.

Chart 1. **Garanti BBVA Monthly GDP Nowcast (3-month average QoQ)**



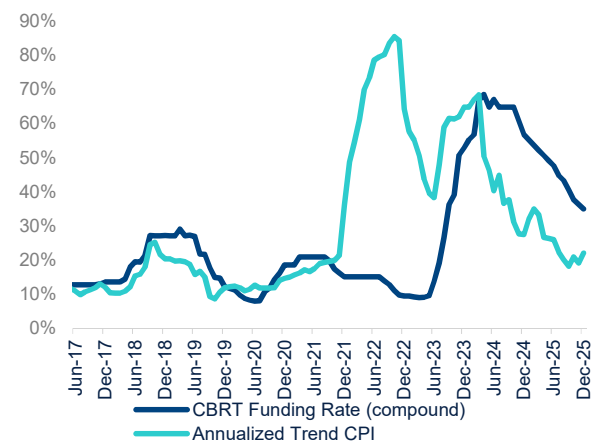
Source: Garanti BBVA Research, TURKSTAT

Chart 2. **Garanti BBVA Financial Conditions Index (standardized, + easing, - tightening)**



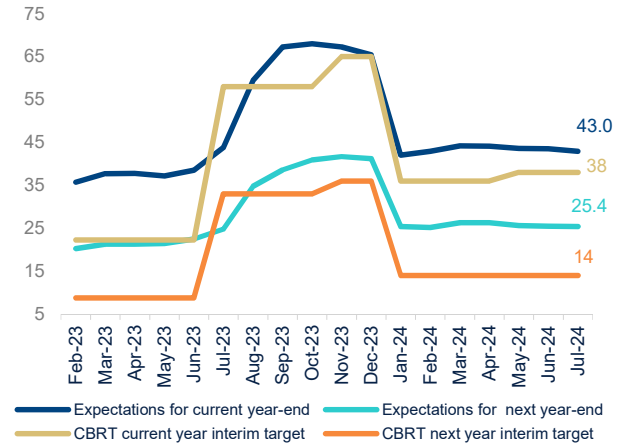
Source: CBRT, Garanti BBVA Research

Chart 3. **Garanti BBVA CBRT Funding Rate & CPI Forecasts (%)**



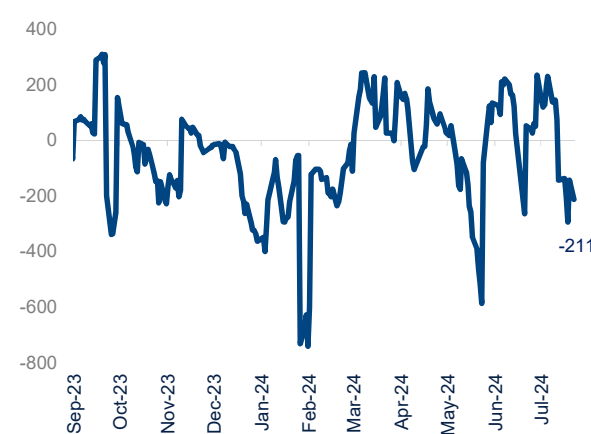
Source: Garanti BBVA Research, CBRT, TURKSTAT

Chart 4. **CBRT Market Participants Survey Inflation Expectations (%)**



Source: Garanti BBVA Research, CBRT

Chart 5. **CBRT Net Funding (TL bn)**



Source: Garanti BBVA Research, CBRT

Chart 6. **CBRT Cost of Funding & BIST TL REF (%)**



Source: Garanti BBVA Research, CBRT, TURKSTAT

## DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA.

### ENQUIRIES TO:

Garanti BANKASI A.Ş. Nispetiye Mah. Aytar Cad. No:2 34340 Levent Beşiktaş İstanbul.

Tel.: +90 212 318 18 18 (ext 1064)

bbvaresearch@bbva.com www.bbvaresearch.com

