

Economic Watch

Türkiye | The CBRT keeps a similar tone to Sep MPC

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17 October 2024

The Central Bank (CBRT) kept the policy rate at 50% in line with the expectations. Despite the negative surprise of the September consumer inflation, the bank seems to preserve a tone similar to the September MPC decision, where they had started to soften their communication about the risk factors on inflation. Nonetheless, they keep emphasizing inflation expectations and pricing behavior as risks to the disinflation. Besides, they also underline increasing uncertainty regarding the pace of improvement in inflation in the light of incoming data. Therefore, we understand they are not too much concerned after September inflation and they prefer to see the next months' inflation to evaluate the monetary stance. We expect monthly inflation trend down to slightly below 2% in December, bringing annual inflation to 43% by end 2024, with risks tilted to the upside. For the time being, we maintain our first rate cut expectation in December with a 250 bps cut, where the timing and magnitude would depend on how the monthly inflation trend is improving. High inflation expectations and uncertainties on wage and price adjustments at the beginning of 2025 require a cautious stance. Therefore, we expect a gradual easing with a still restrictive stance and credit growth caps especially on consumer loans to continue for a while.

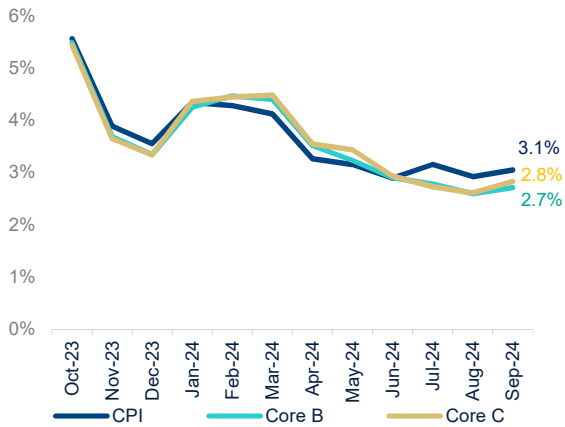
There are two important reference points in the MPC decision, in our view. First, the CBRT keeps a communication with expectations for an improvement in inflation trend. They evaluate domestic demand as approaching disinflationary levels, most likely referring to their clearer view on a negative output gap most recently. They underline their expectations for an improvement in services inflation in the last quarter of the year with their assessment on core goods inflation being low. Second, they stress increasing uncertainty regarding the pace of improvement in inflation in the light of incoming data, potentially emphasizing September's negative surprise and may be to some extent a still worrisome October inflation. Therefore, we understand the CBRT remains cautious but still expects some improvement in the next months' inflation and they just stress that the level of improvement is not clear. As a result, we evaluate they maintain a tone similar to the September MPC decision, where they had started to soften their communication for a gradual easing cycle. There are two KPIs for the CBRT to reach that point, one is a significant and sustained decline in the underlying trend of monthly inflation and the other is a convergence of inflation expectations to the projected forecast range, but not to the point targets.

We nowcast monthly consumer inflation to decelerate to nearly 2.5% in September (also closer to 2.5% if seasonal adjusted) after the boost in September. According to our calculations, 3-month seasonally adjusted inflation trend might decelerate to nearly 2.7% from 3.1%. We expect monthly inflation trend to fall slightly below 2% in December, bringing its annual level to 43% by end 2024. However, September inflation has raised concerns about the stickiness of inflation, implying upside risks on our near term inflation forecasts. On expectations, 2024 and 2025 year-end inflation expectations of professional forecasters were already revised upward to 44.1% and 25.6% in October (vs. 43.1% and 25.3%, previously) and remained well above the upper bound of the CBRT targeted inflation range (42% and 21%, respectively). Besides, 12-month ahead inflation expectations of corporates and households in September, stood at 51.1% and 71.6%, respectively, with only very limited improvement so far (Chart 4). In this regard, we will closely watch how the CBRT will revise its forecast range after the new Medium Term Program (MTP) in its next inflation report to be released on the 8th of November. We expect the CBRT to update the end-2025 point inflation target to closer to the 17.5% stated in the MTP and the new inflation forecast range to be updated with an upper bound closer to 25%.

On liquidity, the CBRT again repeated their commitment to effectively implement sterilization tools. We expect the CBRT to carefully monitor TL deposit rates and act accordingly. O/N TL rates hover around 50%, implying difficulties to well manage the TL liquidity. In this respect, the maintenance of deposit rules for longer will be key to restrain any dollarization tendency of the residents.

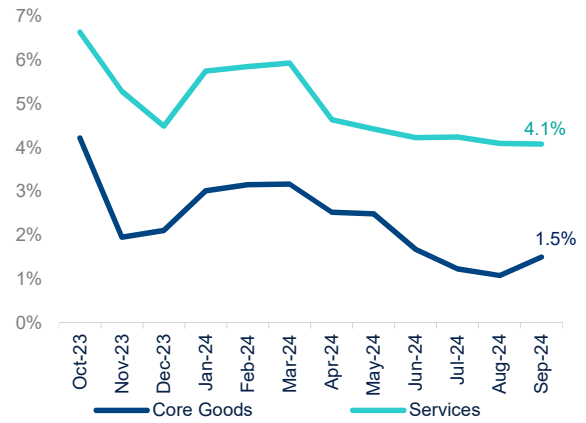
Overall, lagged effects of the monetary tightening have started to be seen with a negative output gap as of 3Q24 and financial conditions remain tight (Chart 4). However, high inflation expectations and uncertainties stemming from wage and price adjustments at the beginning of 2025 require a cautious stance. Therefore, we expect a gradual monetary easing with a still restrictive stance and credit growth caps especially on consumer loans to continue for a while under the assumption of the fiscal policy becoming tight in 2025 as noted in the Medium Term Program (MTP).

Chart 1. **CBRT Underlying Monthly Inflation Trend (sa, m/m, 3m average)**



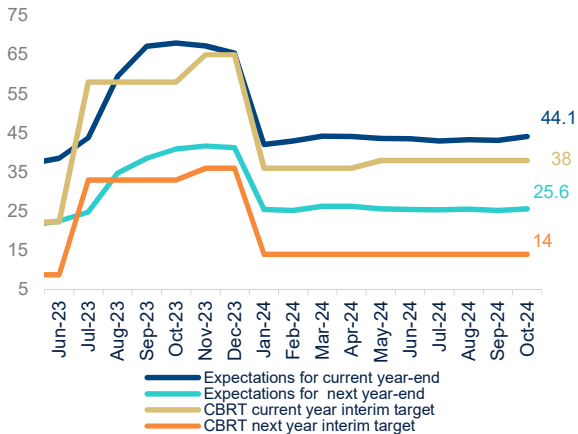
Source: CBRT, TURKSTAT

Chart 2. **CBRT Underlying Monthly Inflation Trend (sa, m/m, 3m average)**



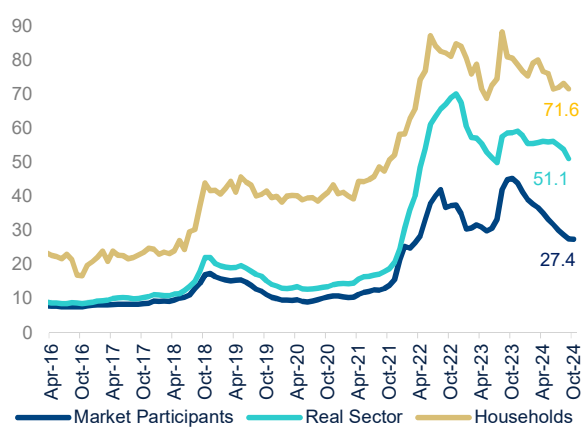
Source: CBRT, TURKSTAT

Chart 3. **CBRT Market Participants Inflation Expectations (%)**



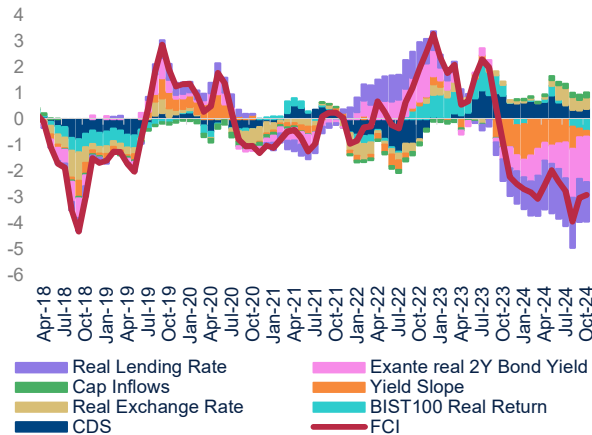
Source: CBRT and Garanti BBVA Research

Chart 4. **Sectorial Inflation Expectations (one year-ahead, %)**



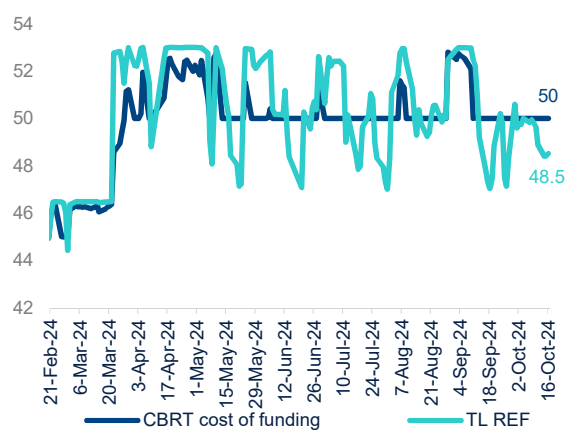
Source: CBRT and Garanti BBVA Research

Chart 4. **Garanti BBVA Financial Conditions Index (standardized, + easing, - tightening)**



Source: CBRT, Bloomberg and Garanti BBVA Research

Chart 6. **CBRT Funding & O/N BIST TL REF Rate (%)**



Source: CBRT and Garanti BBVA Research

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