Economic Watch

Türkiye | CBRT cut policy rate by another 250 bps

Adem Ileri

23 January 2025

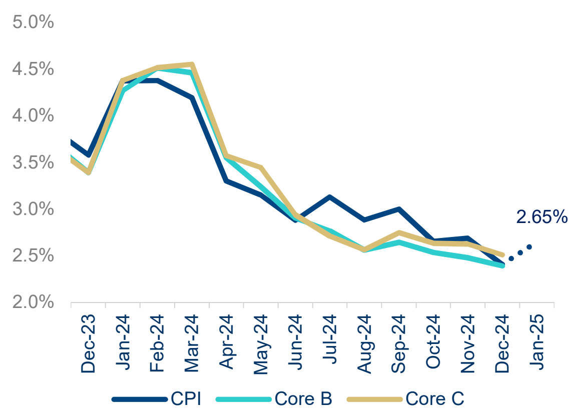
The Central Bank (CBRT) lowered the policy rate by another cut of 250 bps to 45%, in line with the market expectation and ours. The bank rationalized rate cut by referring to the fact that inflation in January was in line with its expectations after the recovery trend in December and domestic demand remained at disinflationary levels in 4Q24, pointing negative output gap. In addition, the CBRT emphasized that despite the recovery, high inflation expectations and pricing behaviors continue to be a risk factor for disinflation. In this regard, the CBRT still gives the commitment to maintain cautious stance to achieve the projected disinflation path closely watching realized and expected inflation and underlying trend. Also, the CBRT signaled that new sterilization tools could be used by emphasizing the recent increasing excess TL liquidity. On the other hand, the CBRT seems to adopt a less hawkish communication by changing their reference of tight monetary policy via a sustained decline in monthly inflation trend and a convergence of inflation expectations to the projected forecast range with a more general reference as price stability via a sustained decline in inflation (most probably a reference to a decline in annual CPI) since annual inflation could retreat faster in 1Q25 on base effect despite the increase in monthly trend.

On inflation outlook, we expect monthly inflation to be around 4-4.5% in January, leading annual inflation (40.7%-41.5%) to decline further. Our expectation has been confirmed by the CBRT, as it emphasized that leading indicators suggest that inflation in January could align with their projections. On the other hand, despite the recovery trend in December and the minimum wage adjustment at the lower bound of the expectations, according to the CBRT's market participants survey for January, inflation expectations improved limitedly. 2025 year-end inflation expectations remained stable at 27.1% while 12 and 24 months ahead inflation expectations decreased to 25.38% (vs prev. 27.07%) and 17.72% (vs prev. 18.47%), respectively. Also, despite the improvement in the headline figure in December, the recovery in seasonally adjusted service inflation was very limited and primarily driven by rent inflation. Therefore, the CBRT's emphasis on the January increase being led by services prices on backward-looking indexation and time-dependent price adjustments indicates that inflation inertia remains strong. Last but not least, the CBRT stated that domestic demand remained at disinflationary levels in 4Q24. According to our calculations, economic activity is accelerating, contrary to our stagnant expectation, leading negative output gap to not deepen further in 4Q. The support to the disinflation might be weaker than expected.

The CBRT continues to accumulate reserves, supported by the slow but ongoing de-dollarization tendency among residents and continued capital inflows. Indeed, net reserves excluding swaps have reached historical high levels. On the other hand, the increasing excess TL liquidity (above 1trn TL) in the market is putting downward pressure on rates, such as TL deposit and O/N TL repo rates. With its recent decision to end rollover of FX-protected TL deposits with 6- and 12-month maturities, the CBRT aims to phase out FX-protected deposits for corporates in 1Q25 and, if conditions allow, for retail accounts in the 2Q25. To ensure demand for TL savings, maintaining an adequate real return via reducing excess liquidity will be crucial. In this regard, the CBRT signaled in its decision statement that new sterilization tools might be introduced. We think that extending the maturities of TL deposit auctions, conducting more reverse swaps with banks, or extending the maturities of existing swaps appear to be possible options.

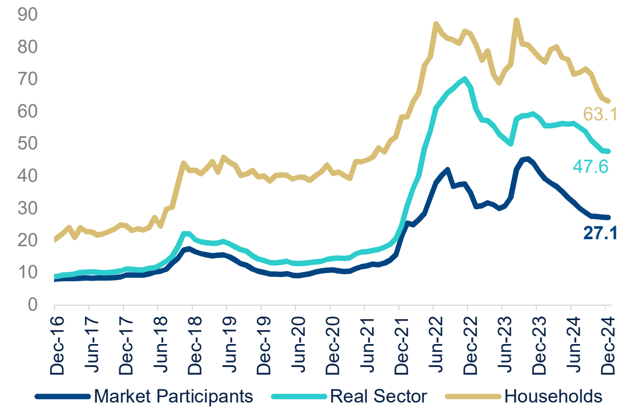
We calculate that financial conditions have recently eased significantly and are approaching neutral levels. Also, our assessment of the monetary policy stance signaled that regulations except loan growth caps are no longer restrictive but at least for now containing the downside pressure of excess TL liquidity. Additionally, the strong accrued budget deficit in December suggests that fiscal policy may not be supportive for inflation until the second half of 2025. Hence, we think that CBRT should maintain cautious and data-driven approach, making decisions on a meeting-by-meeting basis. We expect annual consumer inflation to retreat faster in 1Q25 on base effect but more gradually thereafter before reaching 26.5% at the year-end taking into account still high inflation expectations and strong inertia. The next meeting will be held on March 6th so there is room for CBRT to observe the impact of current decisions on inflation and the expectations. We stay cautious at our funding rate expectation of 31% for 2025 year end after 250 bps cuts in next two meetings and smaller cuts afterwards, and also expect the CBRT to maintain credit growth caps at least during 1H25.

Chart 1. **Trend CPI Indicators** (sa, m/m, 3m average)



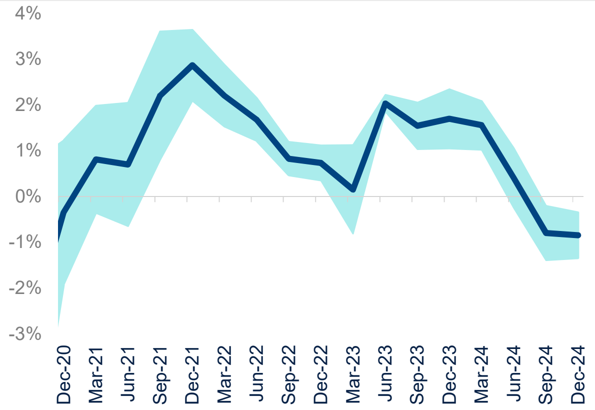
Source: CBRT, TURKSTAT

Chart 2. **Sectorial Inflation Expectations** (one year-ahead, %)



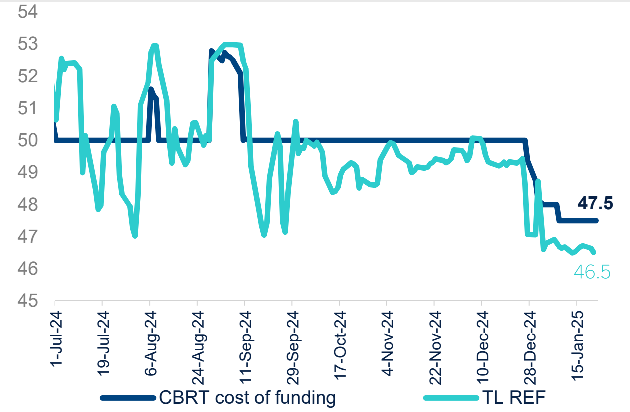
Source: CBRT, TURKSTAT

Chart 3. **Garanti BBVA Output Gap Estimate** (%, deviation from potential GDP)



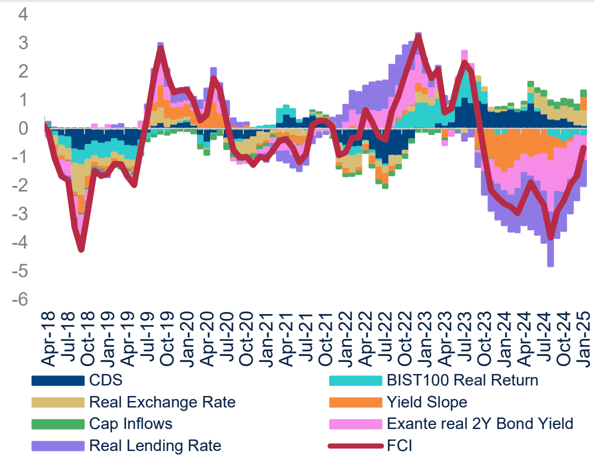
Source: TURKSTAT, CBRT and Garanti BBVA Research

Chart 4. **CBRT Funding & O/N BIST TL REF Rate** (%)



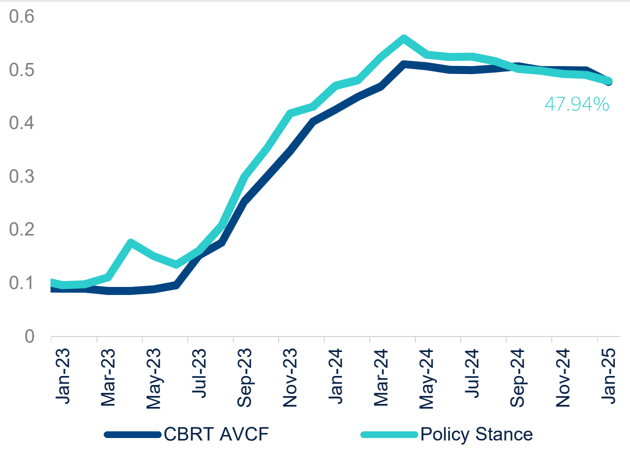
Source: CBRT and Garanti BBVA Research

Chart 5. **Garanti BBVA Financial Conditions Index** (standardized, + easing, - tightening)



Source: CBRT, Bloomberg and Garanti BBVA Research

Chart 6. **CBRT Policy Stance Implied by effects on Markets (%)**



Source: CBRT, Bloomberg and Garanti BBVA Research

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