

POLICY PULSE

# Turkey: CBRT Opted to Regain Flexibility

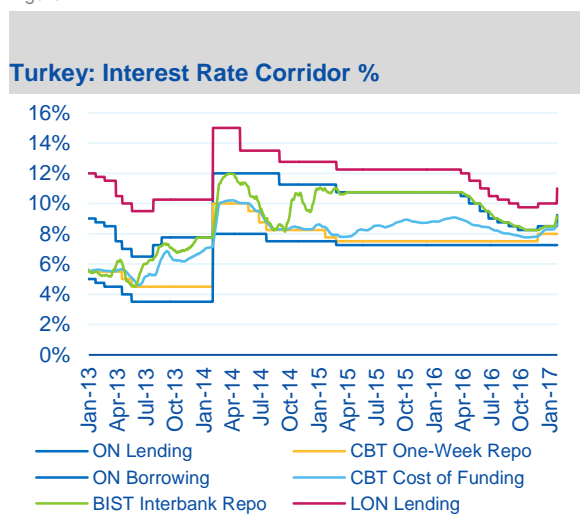
Ugur N. Küçük / Seda Güler / Asuman Kemiksiz

The Central Bank (CBRT) kept one-week-repo rate at 8% but raised O/N lending rate to 9.25% from 8.5% and late liquidity window (LLW) rate from 10% to 11%. The increases in O/N lending and LLW rates were in line with market consensus, however, not delivering a hike in the one-week repo rate was surprising for the markets. Turkish lira was sold-off by 1% following the decision as the markets were hoping for clearer step towards tightening. Today's decision shows that the CBRT opts to regain flexibility with a wide interest rate corridor laying aside the simplification process.

## Extraordinary late liquidity window to become an ordinary policy tool

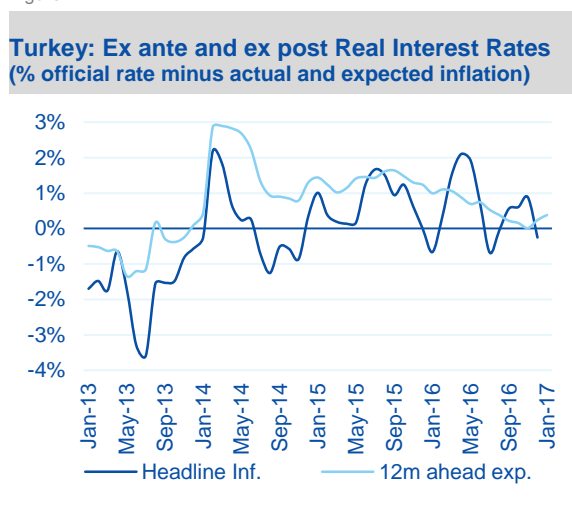
In the accompanying statement, the CBRT acknowledges the upward risks on inflation outlook due to the recent exchange rate depreciation, but also accounts for disinflationary impacts of the soft domestic demand. Besides, the CBRT expects the inflation to continue to see pressurize on the upside in the short term from the already high January inflation rate of 8.5% due to FX pass-through and pick-up in food inflation. Our forecast points out to inflation approaching to double digits in the upcoming months. This would mean that the inflation could breach the CBRT's O/N lending rate soon, resulting in negative ex-post real interest rates. Thus, the CBRT is likely to consult to the extraordinary LLW as a regular policy tool in the coming period.

Figure 1



Source: Garanti Research, Bloomberg

Figure 2



Source: Garanti Research, CBRT, Turkstat

## Looking Ahead

Rather than reacting with an orthodox increase to the recent FX movements and upside risks to the inflation outlook, the CBRT decided to regain monetary policy flexibility with a wide interest rate corridor, shelving the simplification process. The CBRT is likely to continue to rely on the late liquidity window, as inflation is expected to increase further and external headwinds and uncertainties prevail.

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