

Türkiye Watch

CBRT on hold but more hawkish

An improved statement

The Monetary Policy Committee (MPC) held the policy rate constant but gave a message that the current monetary stance will be maintained and could be tightened further. The statement, published under new Governor Fatih Karahan, has significantly improved technical detail and includes clearer messages regarding the bank's reaction function. The "trend of monthly inflation" is underlined as the main tool to assess policy adequacy as well as inflation expectations. The increase in this trend in January is rightly tied to "month-specific and time-dependent price and wage adjustments", in line with the Central Bank of the Republic of Türkiye (CBRT) projections and our forecasts. The bank highlights risk to the inflation path from stickiness in services and food prices, as well as geopolitics.

Real FX appreciation emphasized as key to disinflation

For the first time, the CBRT referenced the real appreciation in TRY explicitly, saying that "The determination in tight monetary stance will continue to contribute to Turkish lira's real appreciation process, which is a key element of disinflation." We believe this could help alleviate any jump concerns in the FX. The bank made it clear that a large depreciation in the currency should not be expected. We continue to see c. 5-10% real appreciation this year, but a sharper decrease in the CA deficit than expected could support more than this.

More hawkish and clearer forward guidance

Forward guidance on additional tightening is now clearer and more hawkish: the monetary policy stance will be "tightened" ("the committee will reassess the stance" previously) in case significant and persistent deterioration in inflation outlook "is anticipated" ("if notable and persistent risks to inflation outlook emerge" previously). Not only is the direction of the reassessment clearer in the new sentence, but it outlines that just anticipating a deterioration in inflation will be enough to hike again.

Additional hikes could come in 2Q

The CBRT strengthened its guidance by adding the word "sustained" to its original sentence: "the current level of the policy rate will be maintained until there is a significant and "sustained" decline in the underlying trend of monthly inflation and until inflation expectations converge to the projected forecast range." Hence, we still do not see any cuts this year. If the demand effect of wage increases proves stronger than expected, additional hikes are possible in 2Q but not our baseline. In the inflation report press conference and its statement, the CBRT made it clear that the monthly inflation trend is what is important to it, so cut expectations based on a drop in the headline due to base effects are not realistic, in our opinion.

Liquidity conditions will keep being monitored

Recent changes in the reserve requirements and interest payments on those related to FX-protected accounts pushed deposit rates higher (Exhibit 2). The CBRT stated that "the developments in market liquidity will be closely monitored and sterilization tools will be effectively used whenever needed."

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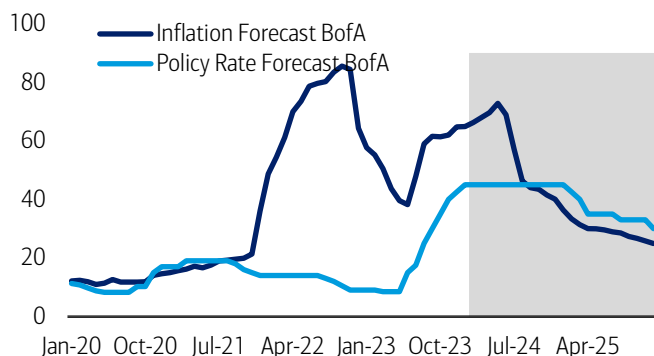
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Deposit rates higher, gold and energy excluded deficit improved

Exhibit 1: Inflation forecast path

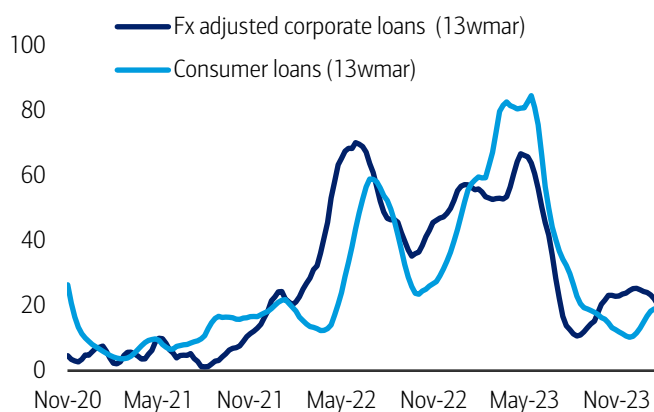
We see inflation peaking by May at 73% and 2024 year-end at 40%. We expect the CBRT to hold rates at 45% until year-end



Source: TurkStat, BofA Global Research *Shaded area indicate forecasts, data otherwise
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Exhibit 3: FX-adjusted loan growth, 13-week ma, annualized %

Loan growth remains subdued

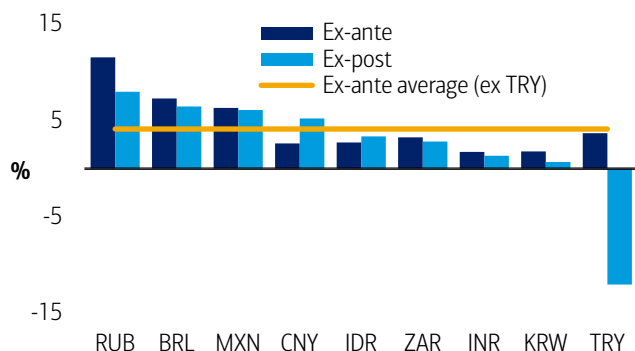


Source: Haver, CBRT

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Exhibit 5: Ex-post and ex-ante real rates in EM, %

Türkiye ex-ante real rates comfortably positive now

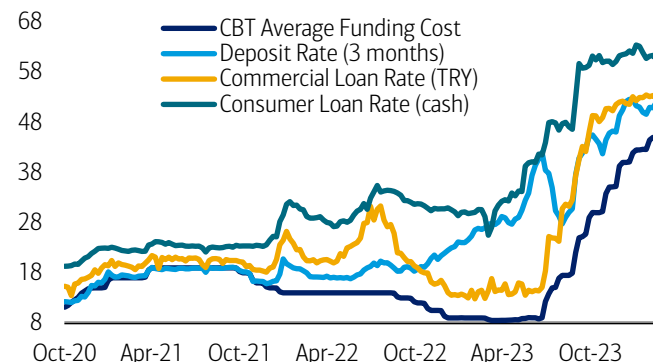


Source: BofA Global Research, Bloomberg

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Exhibit 2: Deposit and loan rates, %

TRY deposit rates edged lower

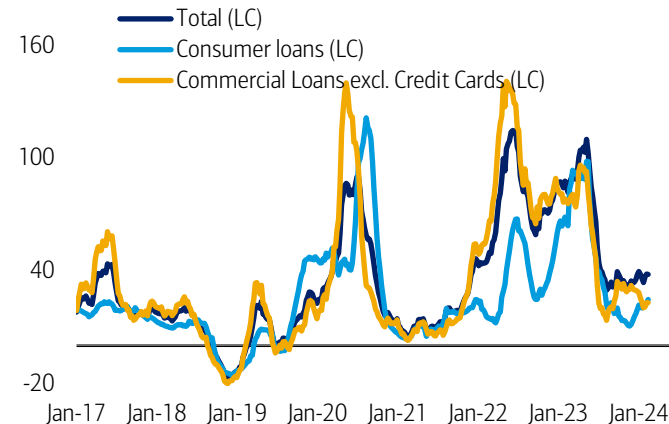


Source: Haver, CBRT

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Exhibit 4: Local currency loan growth, 13-week ma, annualized %

Local currency consumer loan growth slightly increased

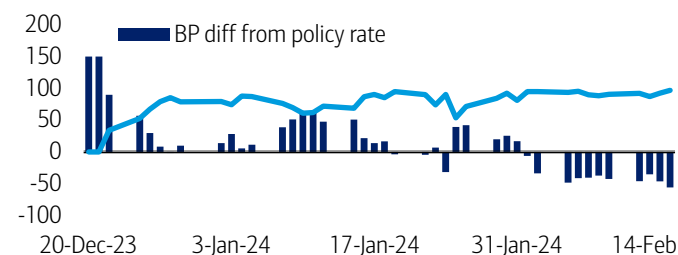


Source: Haver, CBRT

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Exhibit 6: Depo share in sterilization and difference of its weighted average cost* from the policy rate

Net OMO funding is still negative, depo auctions helped increase the average cost of sterilization

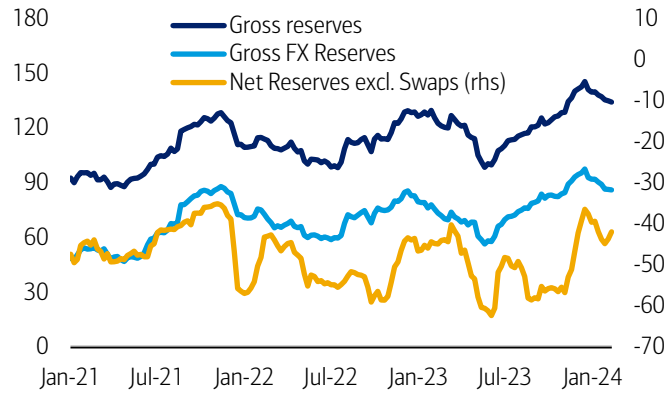


Source: Haver, BofA Global Research. *We calculate the weighted average cost of sterilization using quotation and depo quantities as weights and adjust depo rates for number of days in a year.

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Exhibit 7: Gross and net reserves, USD bn

Net reserves excluding swaps are higher but still negative at -\$39bn

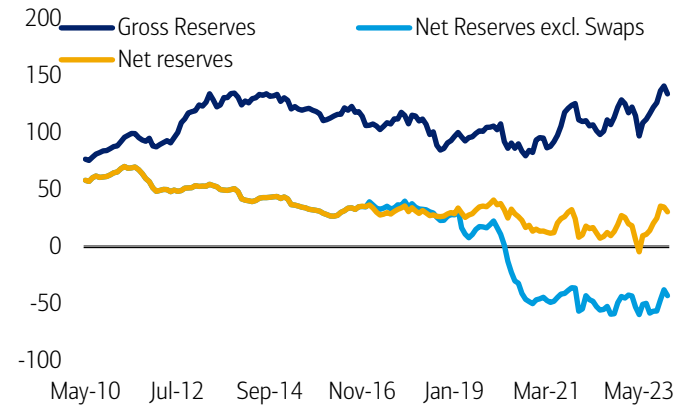


Source: Haver, CBRT

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Exhibit 8: Long-term view of reserves, USD bn

Reserve accumulation accelerated

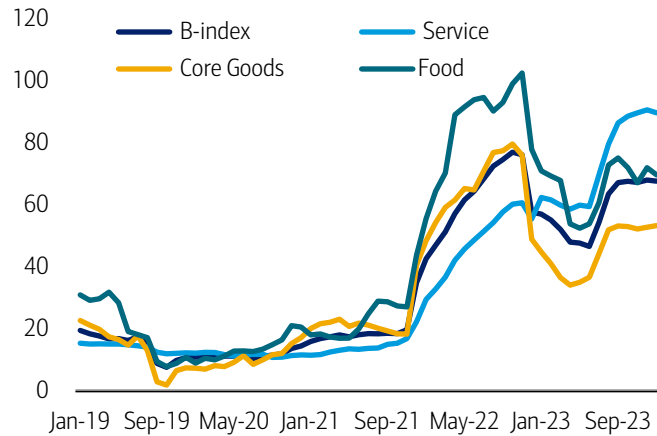


Source: Haver, CBRT

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Exhibit 9: Inflation components, % yoy change

Services inflation hit 90.7% in December, while core goods were 52.8%

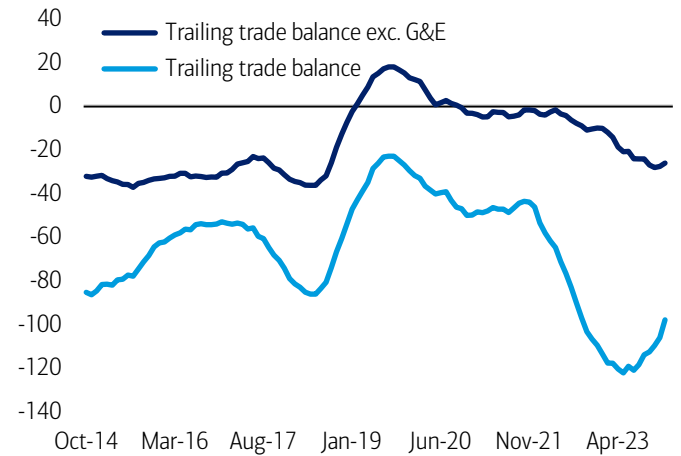


Source: Haver, TurkStat

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Exhibit 10: 12-month trailing trade deficit, USD bn

Excluding gold and energy (G&E) trade balance correction starts to improve



Source: Haver, TurkStat

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