

Türkiye Watch

Hike to 45% and done in January

One more to go

The CBT delivered a 250bps hike in December as expected and stated that “the Committee anticipates to complete the tightening cycle as soon as possible”. The statement said that “monetary tightness is significantly close to the level required to establish the disinflation course”. We now expect one last hike of 250bp to reach 45% terminal rate in January. We do not expect any cuts until 1Q25 given our 40% 2024YE inflation forecast. If inflation proves to be lower c. 36% as the CBT forecasts, we could see a first cut at the end of 2024. CBT could also consider easing some of the regulations before utilizing cuts. We think that currently the market is pricing too many cuts, starting as early as summer. A premature cut, however, could undermine the CBT’s efforts to fight inflation.

TRY depo auctions to sterilize excess TRY liquidity

The CBT once again stated that they see the level of lending rates “in-line with the targeted level of financial tightness” but would continue their efforts to prop up TRY deposit share in the banking system. In addition, the CBT has been trying to solve the excess TRY liquidity issue in the local market. Reserve requirements have been increased multiple times since July to withdraw up to TRY 1tr, but net OMO funding remained in negative territory for most the time (Exhibit 6). The Bank announced that they will start TRY depo auctions to sterilize the excess liquidity. The CBT was sterilizing by borrowing TRY at the lower band of the interest rate corridor at 38.5%. Depo auctions could offer better rates closer to the policy rate which would likely push TLREF rate higher (currently 38.9%) while turning net funding positive.

Funding through swaps has been decreasing since the last rate decision as banks do not see much room to decrease their net funding costs using this channel. Now that policy rate is closer to TRY deposit rates, total cost of swap funding including USD borrowing costs are not as cheap as before. Over time, as the CBT accumulates reserves and lifts off-shore swap limits, we think that bank swaps with the CBT will diminish further.

Deposit rates increased, simplification continued

Deposit rates on TRY deposits (up to 3 months) opened last week averaged 52.2% (50.5% last week, 46% a month ago) while consumer and commercial loan rates were little changed at 61.7% and 51.8%, respectively (Exhibit 2). Once again, the CBT stated that the increase in the policy rate will not be reflected on the reference rate used to calculate the credit card rates. Hence, the maximum monthly interest rate on credit cards remained at 3.66%. Loan growth at these rates remain subdued (Exhibit 3 and Exhibit 4) although there was a slight uptick in consumer loans lately.

The bank also decreased the security maintenance requirement on FX deposit growth from 5% to 4%. We think that the terminal rate at 45% will support the TRY deposit rates further and as inflation starts to decrease from May onwards, the CBT will be in a good position to unwind regulations.

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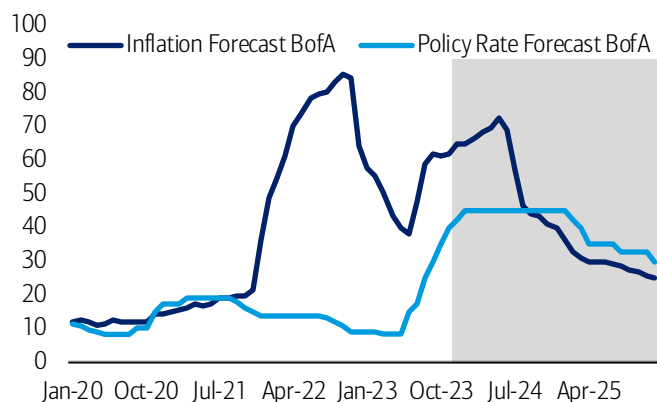
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Rates increased, reserves higher

Exhibit 1: Inflation forecast path

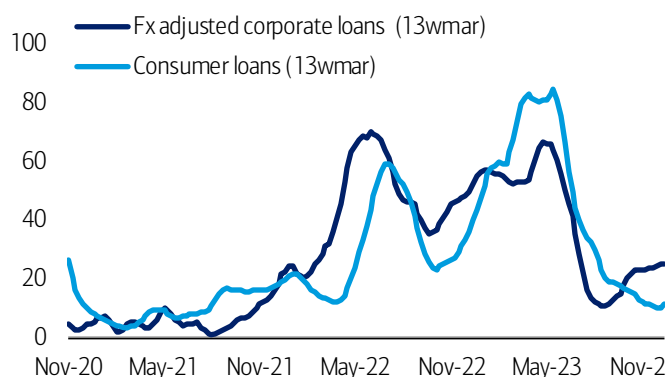
We see inflation peaking by May at 73% and 2024 year-end at 40%. We expect the CBT to hold rates at 45% until 1Q25



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

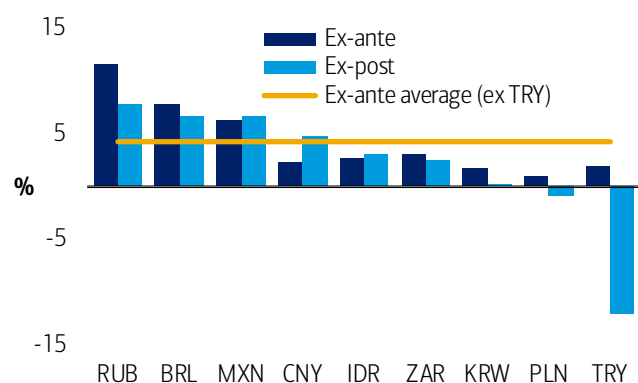


Source: Haver, CBT

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

Türkiye ex-ante real rates comfortably positive now

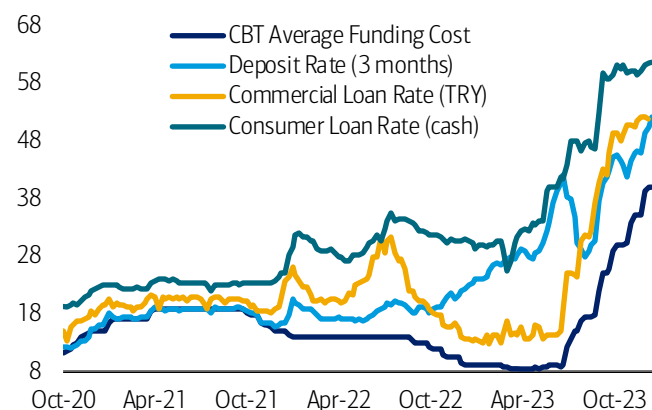


Source: BofA Global Research, Bloomberg

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Exhibit 2: Deposit and Loan rates, %

TRY deposit rates increased further

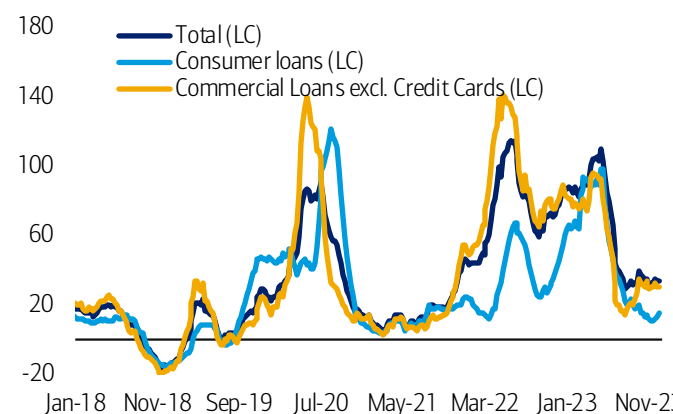


Source: Haver, CBT

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

Local currency consumer loan growth slightly increased

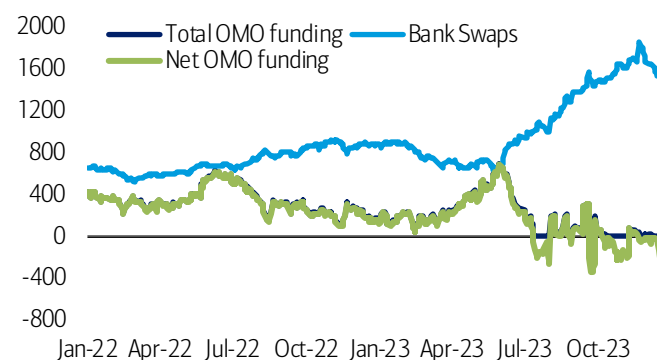


Source: Haver, CBT

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Exhibit 6: CBT OMO funding and swaps with banks, TRY bn

Net OMO funding still negative, depo auction to start to withdraw excess liquidity

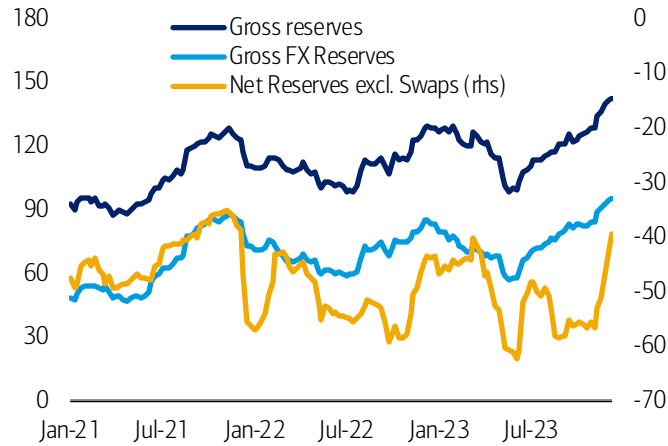


Source: CBT, Haver

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Exhibit 7: Gross and net reserves(rhs), USD bn

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

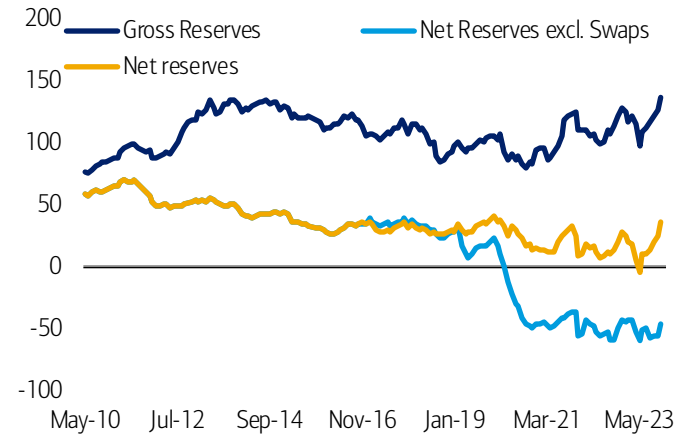


Source: Haver, CBT

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

Reserve accumulation accelerated.

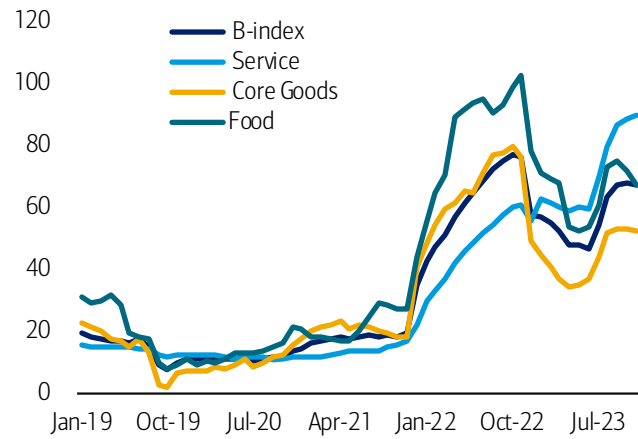


Source: Haver, CBT

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Exhibit 9: Inflation components, % yoy change

Services inflation hit 89% in November, while core goods were 52%

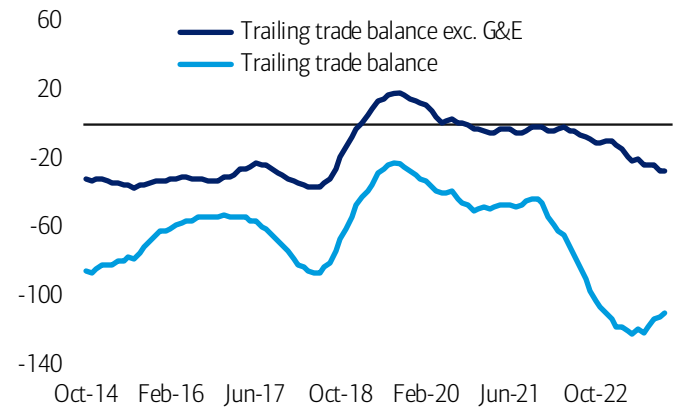


Source: Haver, TurkStat

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

Excluding gold and energy (G&E) trade balance correction yet to start



Source: Haver, TurkStat

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