

Türkiye Watch

CBT on track to hike more

CBT hikes to 30% – still further to go

The Central Bank of Turkey (CBT) delivered the expected 500bps hike in September. Guidance on monetary tightening in the statement has been unchanged for three consecutive meetings, signalling that the central bank will continue to hike the policy rate and use quantitative measures at the same time. We now see the year-end policy rate at 35% (previously 30%) and expect CBT to deliver another 500bp hike in October, but we see probability that it can slow down the pace to 250bp in next two meetings. We also see upside risk to finishing the year at 40%. We still expect the terminal rate to be 45% in 2Q following local elections, with upside risk of it reaching 50%. The central bank continues decisively on the path towards normalisation, and we believe that the slowdown in domestic demand will become more visible in 4Q. However, we remain cautious, as the recent oil price increase should weigh on the current account (CA) deficit this winter, and inflation momentum remains strong.

CBT sees further risk to inflation

The CBT stated that the pass-through from tax hikes and wage increases is mostly over and that month-over-month (mom) inflation should ease. However, the bank sees further risk to its inflation outlook. Following two data prints that beat expectations, rising oil prices and deteriorating inflation expectations pose additional upside risks to inflation, the statement said. The CBT also referred to the continuation of “strong course of domestic demand” and stickiness of services inflation as risks.

Overall, we assess the statement as hawkish and believe that the bank is determined to raise policy rates to restrictive territory as quickly as possible. In the meantime, the CBT continues to use regulatory measures to keep the current monetary stance tight. The conversion requirements introduced to decrease the FX-protected deposit accounts have pushed TRY deposit rates to 42%, and consumer loan rates reached 59% on average as of last week. Commercial rates averaged 43% as some segments are still subject to interest rate caps (Exhibit 2).

We expect a higher CA deficit on the back of oil rally

The price of Brent oil has increased by 27% in the last three months, and we see a risk of it remaining at elevated levels over the winter. In addition, the year-to-date trade deficit excluding gold and energy remained strong over the summer and reached \$24bn in August, up from \$11bn last year. Also, 12-month trailing services income has been flat for the last five months, despite increases in the number of foreign visitors. We revise up our 2023 year-end CA deficit forecast to \$47bn from \$42bn. The higher oil price not only implies higher inflation but also that the slowdown in domestic demand will have to be sharper to help correct the deficit, if the CBT is willing to accumulate reserves. Since the election in May, net reserves excluding swaps have increased only \$2.3bn. Hence, we think that the CBT might come under more pressure to raise rates further, if not this winter, then likely after the local elections. That’s why we now see upside risk to our 45% terminal rate forecast in 2Q24.

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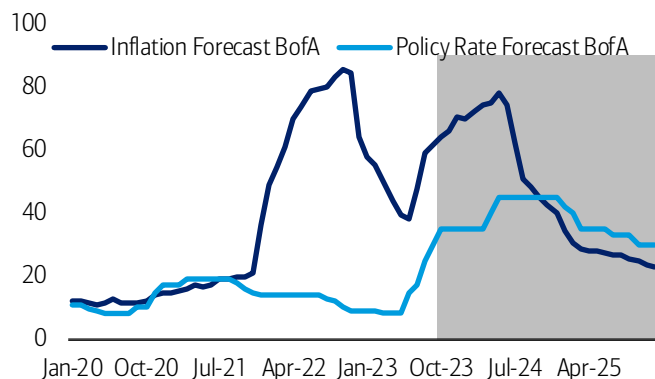
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Related statistics

Exhibit 1: Inflation forecast path

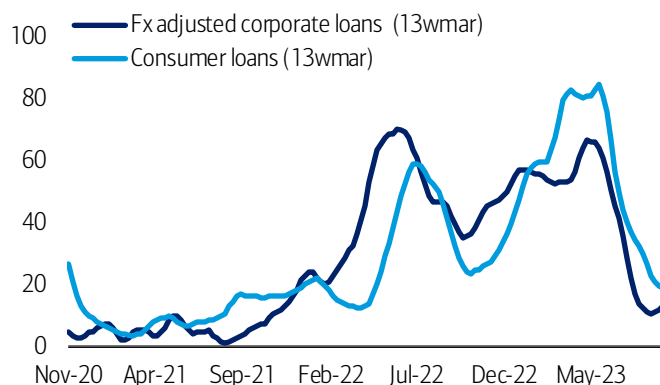
We see inflation peaking by May at 78% and 2024 year-end at 40%.



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 continues

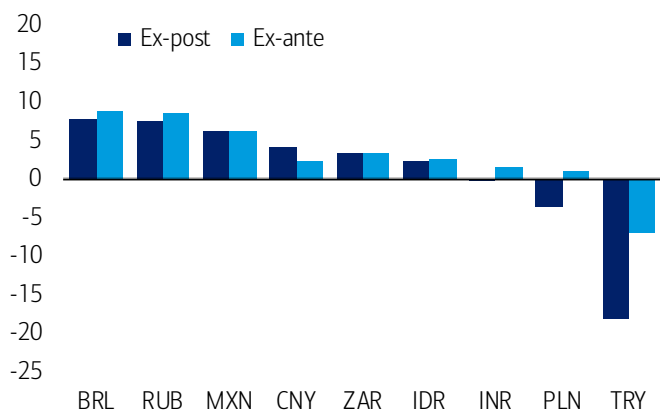


Source: Haver, CBT. ma = moving average.

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

Türkiye real rates remain negative, but financial conditions are already tight on the back of quantitative measures

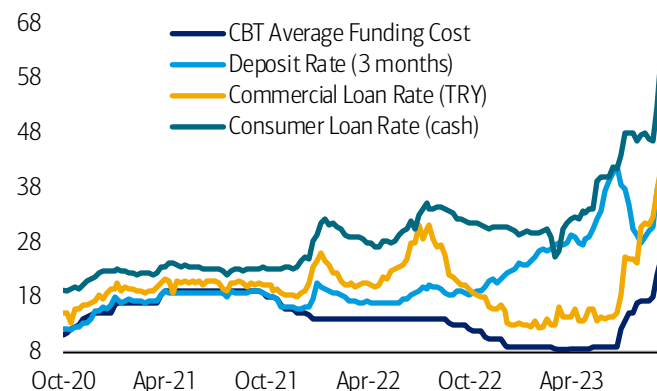


Source: BofA Global Research, Bloomberg

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Exhibit 2: Deposit and loan rates, %

TRY deposit rates reached 42%

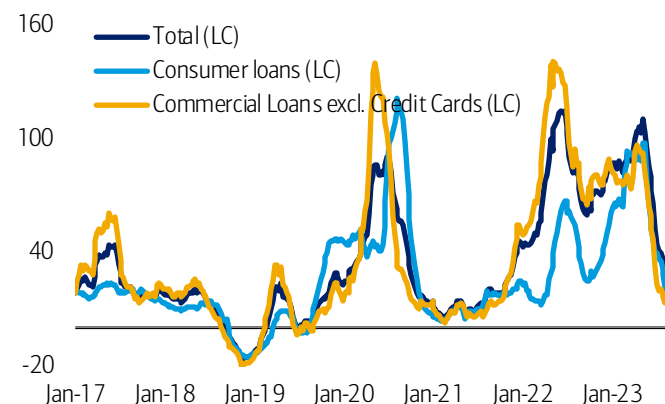


Source: Haver, CBT

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

Local currency loan growth slightly picked up

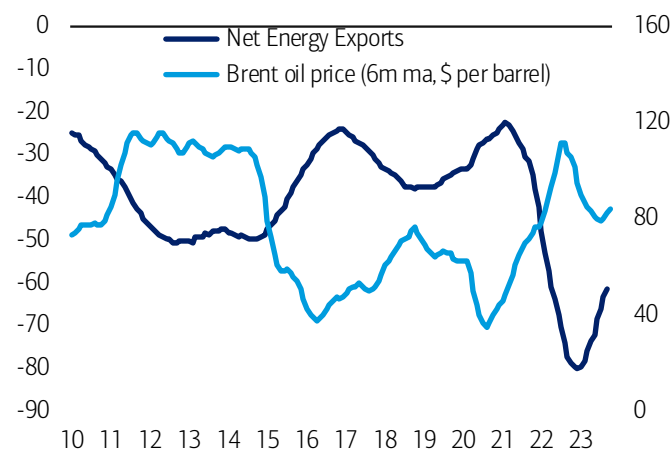


Source: Haver, CBT

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Exhibit 6: Energy deficit and Brent oil price

Oil price increase is likely to widen energy deficit this winter

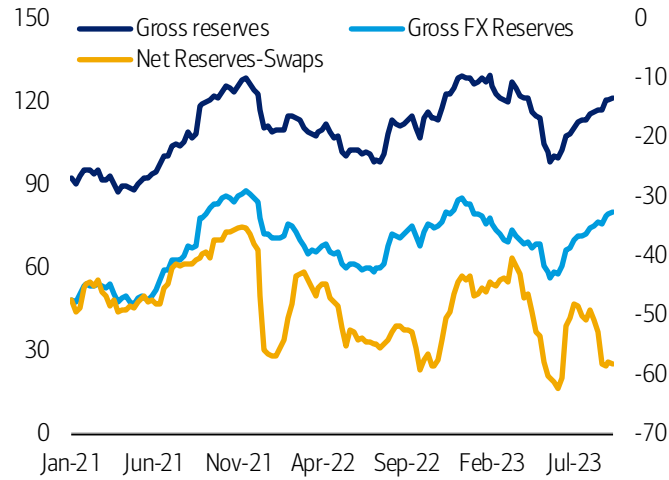


Source: Haver, CBT

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

Reserve accumulation has mostly been in gross terms

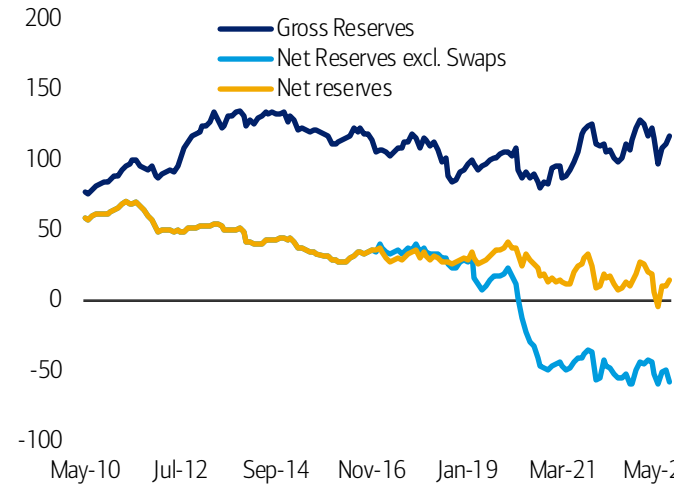


Source: Haver, CBT

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

Net reserves excluding swaps have not changed much since 2021



Source: Haver, CBT

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