

POLICY PULSE

# Turkey: Central Bank strengthened tightening

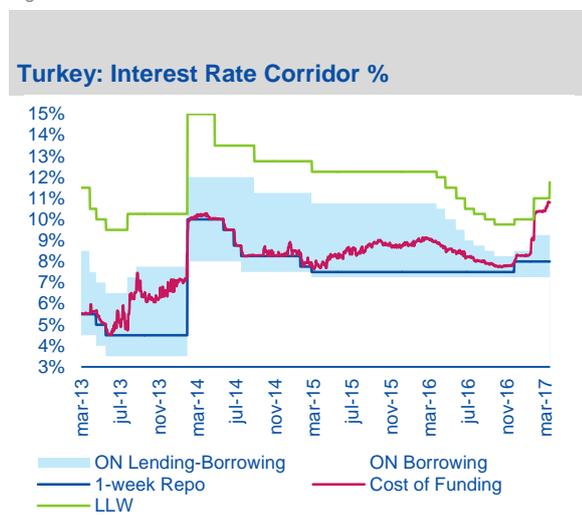
Ugur N. Küçük / Seda Güler / Asuman Kemiksiz

Slightly below market and our expectations, the Central Bank (CBRT) increased late liquidity window (LLW) rate to 11.75% from 11% and kept the rest of the interest rates constant. With this decision, de-facto marginal funding rate in TL money market is increased up to 75bps and the interest rate corridor is widened to 450bps. Turkish lira reacted positively by appreciating almost 1% against the dollar following the decision. After already breaching double digits, expectations of further significant increase in inflation is noted as the main driver of today's decision.

## Extraordinary LLW became the most ordinary policy tool

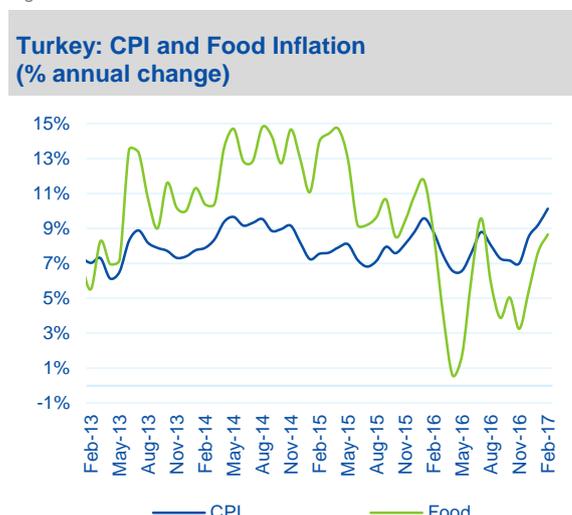
The CBRT acknowledges that the significant increase in inflation is expected to continue due to secondary round impacts of FX pass-through and unfavourable base effects on food inflation. Meanwhile, the Bank dropped its reference that the aggregate demand conditions support disinflation. This was not surprising for us as we think the intensified fiscal support is limiting the impact of monetary tightening on the overall financial condition, as interest rates on loans are mostly muted and loan growth keeps an increasing trend. We forecast inflation to keep increasing significantly until June, risking to breach 12% marks, unless the currency shows a significant appreciation. Thus, although not necessarily starting from tomorrow onwards, the CBRT is likely to allocate almost entire funding to the LLW in the following weeks.

Figure 1



Source: Garanti Research & Bloomberg

Figure 2



Source: Garanti Research & Turkstat

## Looking ahead

The CBRT delivered a 75bps tightening on the LLW, i.e. de-facto marginal funding rate. The CBRT opted to gain some room for further tightening in the face of further inflationary pressures. The Bank is likely to continue to rely on the extraordinary LLW as its main policy tool, as inflation is expected to increase further and external uncertainties prevail. We expect the Bank to raise its average funding rate gradually and approach 11.75% especially after receiving the March inflation data.

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