BBVA Research

Creating Opportunities

Economic Watch

Turkey: The CBRT repeats the same messages

Seda Guler Mert

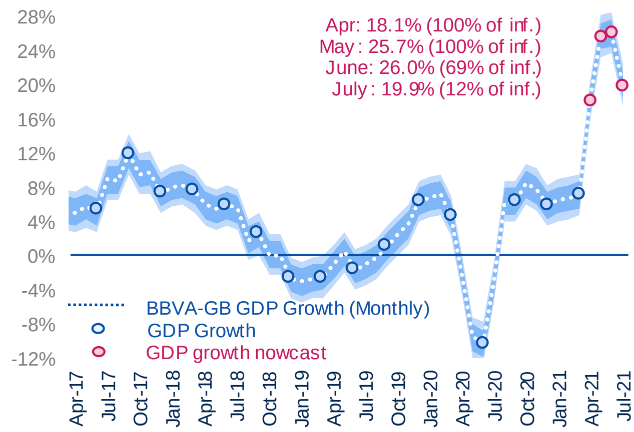
14 July 2021

The Central Bank of Turkey (CBRT) maintained the policy rate (one-week repo) at 19% in line with the expectations. The decision text is almost the same apart from the more positive expectations on the current account balance and the likelihood of a more volatile inflation outlook in the near term. Given the high levels of inflation and inflation expectations, the CBRT repeated the need to decisively keep the current “tight” monetary policy stance until a significant fall in the April Inflation Report’s forecast path is achieved, referring to a timing of late 3Q or start of 4Q. Given the increased upside risks, we expect consumer inflation to hover near 18.5% till November before declining to 16% at the end of the year. Rising global inflation and inflation expectations and their potential effects on the markets will also be important for especially the EMs. So, we expect the CBRT to start an easing cycle only very gradually in October and end the year with 17.5% policy rate.

Domestic demand still remains inflationary, inflation expectations worsen further

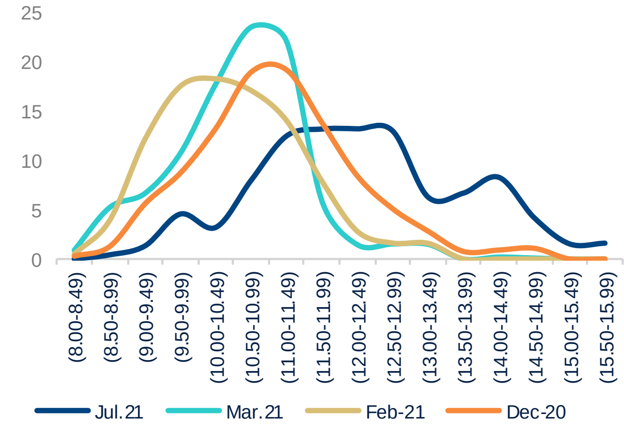
The CBRT will also need to revise up its inflation forecasts in July inflation report at the end of the month, given the higher import prices, further depreciation in the currency, worsening inflation expectations and still strong demand conditions. Though, the Bank continues to rely on the decelerating impact of the monetary tightening on credit and domestic demand but economic activity remains strong, as it also confirms. According to our Big Data proxies and other high frequency indicators, the economy has shown a fast recovery following the reopening, and our monthly GDP indicator still nowcasts a yearly growth rate of near 20% in early July (Figure 1). The CBRT will monitor the effects of the implemented macroprudential measures on consumer loans, but it still doesn’t signal any further tightening bias. Deepening cost-push factors and still growing domestic demand reinforce upside risks on the inflation outlook in a period of reopening and supply-side problems. Also, inflation expectations kept deteriorating as year-end expectation increased to 15.6%, while the 12-month and 24-month ahead expectations also rose to 12.6% and 10.4%, respectively (Chart 2). On the positive side, the current account balance is expected to post a surplus in the rest of the year due to the strong upward trend in exports, and the strong progress in the vaccination program stimulating tourism activities. All in all, worsening inflation outlook and potentially increasing global yields when getting close to the FED tapering will require the CBRT to be more cautious, which the CBRT tries to manage right now by trying to eliminate any early rate cut expectations.

Chart 1. **Garanti BBVA Research Monthly GDP Indicator** (%yoy, 3-month moving avg.)



Source: Garanti BBVA Research, TURKSTAT

Chart 2. **Probability Distribution of 12-Month Ahead Inflation Expectations** (%)



Source: Garanti BBVA Research, CBRT

DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

ENQUIRIES TO:
Garanti BANKASI A.Ş. Nispetiye Mah. Aytar Cad. No:2 34340 Levent Beşiktaş İstanbul.
Tel.: +90 212 318 18 18 (ext 1064)
bbvaresearch@bbva.com www.bbvaresearch.com